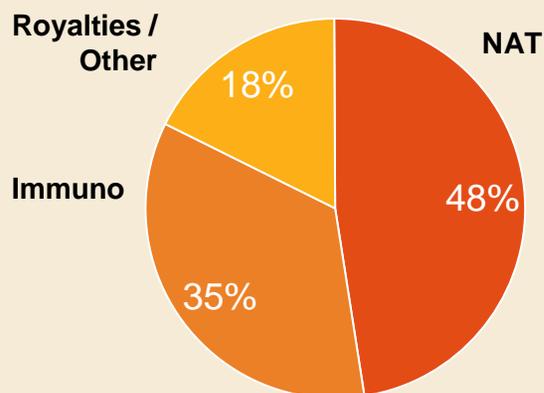


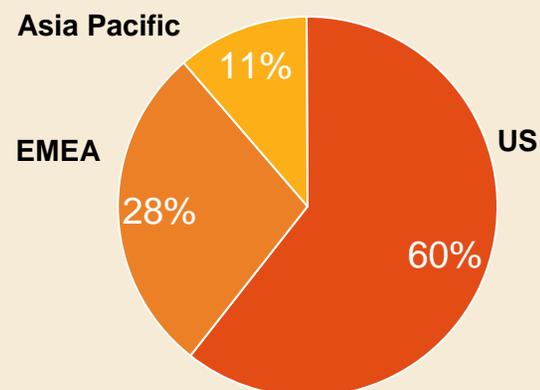
Novartis Diagnostics

NVS Dx focuses on Preventive Screening Solutions

Sales by segment – 2010



Sales by region – 2010



Key facts

2010	USD million
Net sales*	836.5
Operating income	378.9

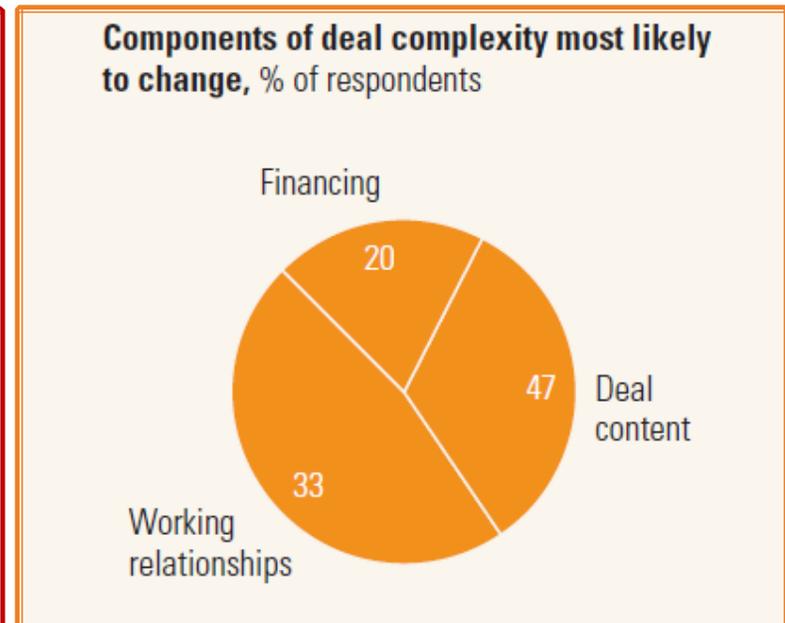
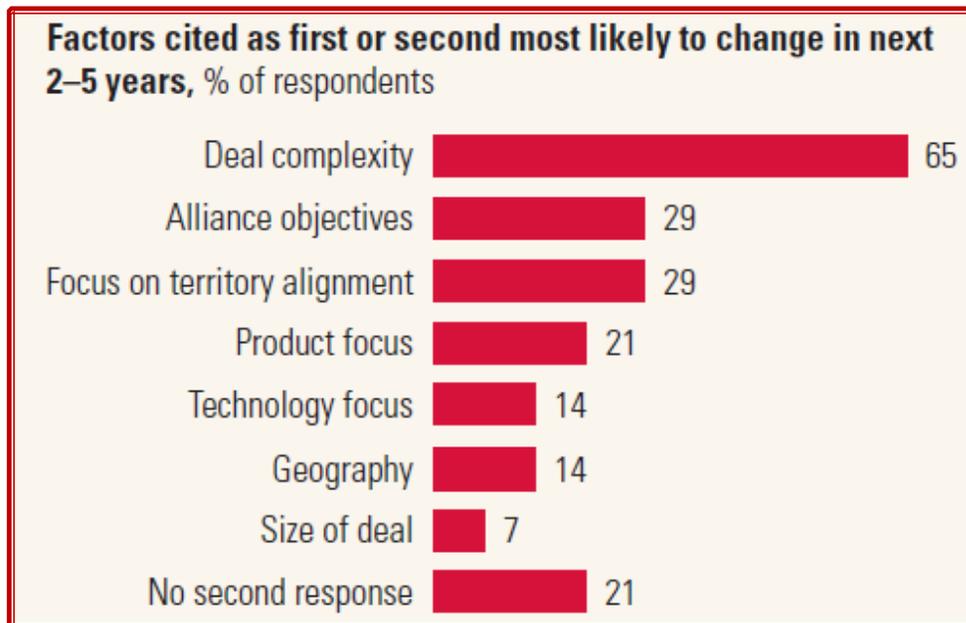
Group overview**	
Employees	553
Headquarters	Emeryville, CA

*Revenue from companion diagnostics is included in the Pharmaceutical Division.

** Data as of December 2010.

Alliances are becoming increasingly complex

- McKinsey reports >½ of pharma BD professionals interviewed anticipate changes in deal complexity
- While deal content will become increasingly complex, so will interpersonal aspects: 1/3 of changes will most likely relate to **working relationships**
- Adding to escalating contractual costs (up-front fees, milestones, royalties), the increasing complexity of alliance decision-making can slow progress & cost partners months of lost product revenue



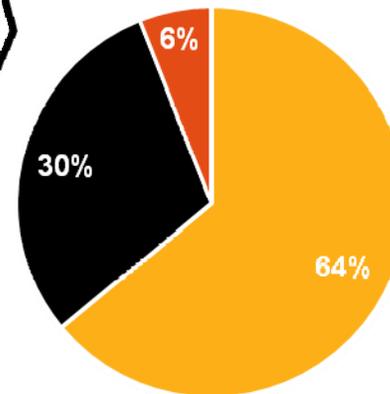
Source: *Making Pharma Alliances Work*, McKinsey Quarterly, 2004.

And companies are unable to capture their value

Overall Alliance Success Rates

1. Only ~ ½ of all joint ventures yield returns to each partner above the cost of capital¹
2. # of corporate alliances increase by 25% per year & account for ~1/3 of companies' revenues, yet ~ 60-70% of alliances fail²
3. < 1 in 4 alliances have adequate performance metrics in place³

Primary Cause of Alliance Failure⁴



- **Poor or Damaged Relationship**
- **Poor Strategy or Business Planning**
- **Poor Legal and Financial Terms and Conditions**

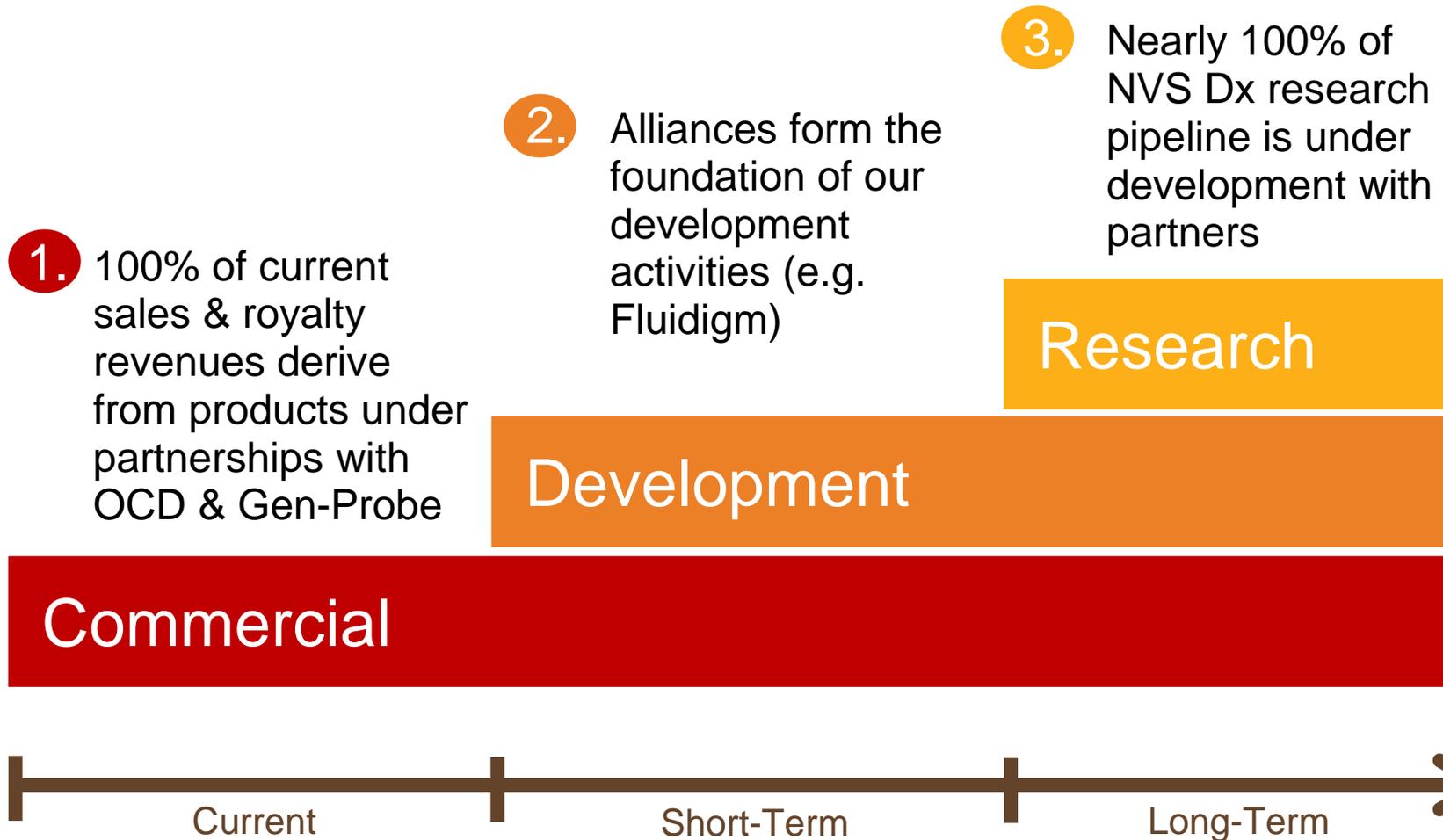
1. Source: Harvard Business Review. *Managing Alliances with the Balanced Scorecard*. 2010.

2. Source: Harvard Business Review. *Simple Rules for Making Alliances Work*. 2007.

3. Source: McKinsey & Company. *Measuring Alliance Performance*. 2002.

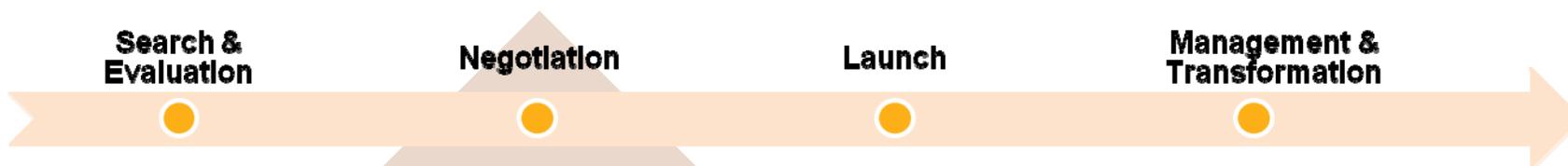
4. Source: Ertel, Weiss & Visioni. *Managing Alliance Relationships: Ten Key Corporate Capabilities*. Vantage Partners, 2001.

Alliance management is important for NVS Dx



Alliance Management Blueprint

Negotiation Phase Key Considerations



1. Involve alliance manager in negotiations, from term stage onwards

- *Why:* An experienced AM can provide input to help ensure contract is readily operational when implemented
- *How:* Seek AM input on milestone language specificity, governance, communication, JSC/JDC/JCC structure

2. Determine optimal governance structure, carefully selecting JSC committee members

- *Why:* JSC members must consistently participate to ensure strategic intentions remain a focus of relationship
- *How:* Ensure members can commit to meeting attendance before selection; establish w/ partner what will occur when key members can't make meetings; discuss member replacement process; include a commercial contact on JSC (or as standing invite to JSC mtgs) to incorporate commercial interests from start of alliance; align member's backgrounds

3. Consider including JSC authority to create JCC (Jt Commercial Comm) in contract terms

- *Why:* While NVS is familiar w/ progression from development to commercialization, our partners may be less commercially-focused. It is imperative to include our partner in commercial planning efforts early & often.
- *How:* Write into contract JSC's ability to create a JCC at a specific development stage (e.g. # mths post PoC)

4. Agree upon periodic meetings b/w company's top execs to discuss strategic intentions

- *Why:* As alliance develops partners' strategic intentions often diverge, continuity of alliance leadership crucial
- *How:* Consider including annual or more frequent meetings in contract, or discuss during negotiations

5. Post negotiation, identify & address any residual tensions from negotiations process

- *Why:* Key issues arise during negotiations which should be understood to anticipate future challenges
- *How:* Knowledge transfer (via briefing doc & mtg) from BD&L → Alliance Team re: tradeoffs made & sources of tension

Alliance Management Blueprint

Launch Phase Key Considerations



- 1. Prior to the launch event, conduct interviews of each partners' JSC chair & exec mgmt**
 - Why:* Understanding leadership's strategic goals & success measures can guide alliance efforts & identify challenges
 - How:* Using launch interview guide as resource, conduct partner & internal interviews re: business context and goals, barriers to success, negotiation lessons learned, definition & management of working relationship, governance, etc.
- 2. Review contract terms in “plain language” to facilitate joint implementation**
 - Why:* A lack of transparency & mutual understanding surrounding milestones & terms is a common alliance detractor
 - How:* Conduct joint contract review session at launch. Document discussion findings & distribute post-launch.
- 3. Review both the alliance's and each companies' governance, decision-making processes**
 - Why:* Partners' diff. governance structures will impact alliance governance; formalized alliance governance necessary
 - How:* Review each partners' internal decision processes; create JSC charter addressing mission, objectives, priorities, & operating processes (e.g. publications, reporting, JCC formation, communication, escalation, leadership continuity)
- 4. Build joint alliance understanding and conduct relationship planning**
 - Why:* Launch should set the “tone” of relationship & enable collaborators to manage alliance effectively going forward
 - How:* Have JSC co-chairs share their expectations of the partnership & strategic purpose of alliance; as a group discuss strategic, financial, operational, & relationship challenges alliance may face & brainstorm mitigation strategies
- 5. Include a cultural evaluation of each partner's organization**
 - Why:* Cultural discordances often cause alliance failure; understanding partner's culture helps mitigate future tensions
 - How:* Share each partners' cultural elements (history, heroes, rituals, values & behaviors, taboos, incentives) at event

Alliance Management Blueprint

Management & Transformation Phase Key Considerations



Management & Transformation Phase: Management Blueprint

1. Monitor the health of alliance via periodic “Health Check” surveys

- *Why:* Surveys can uncover improvement opportunities & are useful to track alliance progress & partner satisfaction
- *How:* Agree on survey frequency w/ partner, use AM Toolkit to identify survey questions, engage external company to conduct/collate survey if necessary, review results & agree on issues to jointly address, track improvements

2. Implement operational best practices to maximize efficiency of JSC meetings

- *Why:* Continuous operational improvement is necessary to create business efficiencies for NVS Dx and its alliances
- *How:* Adopt common operating processes across alliances including dashboard reporting, agenda setting, mtg minutes

3. Proactively manage issue escalation and conflict resolution processes

- *Why:* Slow or tenuous escalation processes are key drivers of alliance failure
- *How:* Agree on escalation process at launch & formalize in charter, assess partner satisfaction with issue escalation & conflict resolution processes in each health check survey, utilize AM Toolkit for example issue tracking templates

4. Set alliance team objectives for ongoing training in AM processes, tools, & skills

- *Why:* Alliance members’ skill sets vary across companies and w/in teams, training & development can help bridge gaps
- *How:* Utilize health checks to identify areas of alliance weaknesses and training needs; establish development objectives; attend annual NVS-sponsored AM conference, utilize AM Toolkit for specific training materials (e.g. online simulations); consider joint training sessions to satisfy objectives using a collaborative & ongoing approach (vs. 1-time)

Alliance Management Blueprint

Management & Transformation Phase Key Considerations



Management & Transformation Phase: Transformation Blueprint

1. Leverage renegotiations as opportunities & scan environment for renegotiation “triggers”

- *Why:* Viewing renegotiations as an opportunity allows parties to redefine relationship in light of changed circumstances
- *How:* Perform internal scan of triggers for need for renegotiations periodically (e.g. 2x/yr), utilize alliance experience & acquired knowledge to redefine terms for new partnership, consider consultancies for 3rd party help

2. Improve transparency by revisiting contract understanding & removing barriers

- *Why:* Many partnership disputes stem from a lack of transparency over issues not specifically addressed in contract
- *How:* Periodically evaluate frequency of JSC meetings, as more frequent meetings provide more communication opportunities. To further improve transparency consider adding amendment to contract which includes operating principles (e.g. supervisory board, accounting, minutes, meeting reschedule protocols if members are absent, etc.)

3. Evolve AM role and outreach as alliance approaches commercialization

- *Why:* Strategic priorities of the alliance, as well as each partners’ organization, change over time & often create tension
- *How:* Encourage leadership communication re: strategic objectives via annual mtgs b/w company presidents to discuss strategic direction; involve Commercial contacts at every JSC mtg, keep partner informed of progress

4. Prioritize value creation by identifying & measuring \$ value added by AM efforts

- *Why:* An organization’s AM function can be used to identify & capture additional value beyond the day-to-do operations
- *How:* Consider including value creation as a performance metric for each partners’ AM; utilize AM Toolkit for brainstorming potential ways to add value to partnership; continually consider if contract modifications should be made

Case Study: Negotiation Phase

Spotlight on #5 knowledge transfer from BD&L re: key negotiation issues

Relevant Blueprint Consideration

- 5. Post negotiation, identify & address any residual tensions from negotiations process**

Case Study

Overview

- At a leading CPG company the Bus Dev and Legal teams are required to compose detailed briefing for alliance implementation teams for all alliance agreements they negotiate

Actions

- The CPG's Bus Dev and Legal team writes briefing document in tandem with partners' negotiating counterparts
- Both partners' negotiators present briefing, jointly, to alliance implementation team (e.g. alliance project team)
- When sharing briefing document, negotiators share key facets of contract but also discuss intent of alliance in straight-forward business terms

Result

- Reduces conflicts arising from differing interpretations of the same contract language
- Provides opportunity for questions and answers in an open forum

Source: "Right from the Start: The Seven Virtues of A Successful Alliance Launch". Vantage Partners, LLC 2009.

Case Study: Management & Transformation Phase

Spotlight on Transformation consideration #3 renegotiation opportunities

Relevant Blueprint Consideration

- 1. Leverage renegotiations as opportunities & scan environment for renegotiation “triggers”**

Case Study

Overview

- An alliance b/w a small US biotech & large European pharma was mired with difficulties including missed deadlines, employee resignations & expanded timelines. Parties decided to “re-launch” their relationship rather than dissolve alliance

Actions

- All members of project teams filled out grids delineating decision-making responsibilities as they saw them; then each person from both partner organization reviewed others’ grids to identify areas of disagreement, gaps, etc.
- Parties underwent joint discussion of decision making and meeting preparation policies discussed differences in approaches and impact of these differences, and agreed to new decision making structure

Result

- Used relationship “re-launch” process to improve alliance and avoid need for alliance dissolution or formal contract renegotiations

Source: “Right from the Start: The Seven Virtues of A Successful Alliance Launch”. Vantage Partners , LLC 2009.