



Purdue Pharma L.P.
Selected Investigation Documents
Part II

Committee on Oversight and Reform
U.S. House of Representatives

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WORKING DRAFT

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OxyContin growth opportunities



Phase II Final Report: Recommendations
Sept 13, 2013

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We have performed a deep diagnostic on OxyContin growth opportunities and identified areas of opportunity

Project objectives

- Identify key opportunities to drive near-term OxyContin performance
- Build plans to capture priority opportunities



Phase 1: Diagnostic phase

- 1 Market landscape
- 2 Messaging & positioning
- 3 Segmentation & targeting
- 4 Field execution & focus
- 5 Access & availability
- 6 Scientific support
- 7 Commercial spend levels
- 8 Patient funnel

Phase 2: Priorities and recommendations

- 1 Turbocharge the Purdue sales engine
- 2 Messaging
- 3 HECON/payor
- 4 Access & availability
- 5 Commercial resourcing/benchmarking
- 6 Market demands and forecasting
- 7 Moving forward

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Overview of key recommendations (1/2)

Key Recommendations	
Turbocharge the Purdue sales engine	1 Create a senior team to lead effort and task them to develop a detailed workplan within 30 days
	2 Establish an incremental revenue goal vs forecast (e.g., \$150M annualized incremental stretch goal by July 2014) and set regular progress reviews with the appropriate groups
	3 Shift Purdue's sales targeting from decile to workload (industry norm that more precisely defines the value of physicians) incorporating measures beyond total ERO prescriptions
	4 Increase field effort significantly for OxyContin through improved productivity and closely measure changes in sales
	5 Take actions to drive field adherence with recommended call targets, including adjustment of the incentive compensation to reflect the greater field effort on OxyContin
	6 Perform similar analyses for Butrans and the near term pipeline to align on a portfolio level field resourcing plans to ensure that the sales transformation builds a strategic platform for the future
	7 Explicitly consider the strategic addition of ~65-230 OxyContin reps and various options (e.g., a CSO overlay to get increased frequency). There are multiple factors to be considered including leadership perspectives on: 1) desire for a lower risk approach to delivering the near term forecast 2) how much change the current organization can realistically deliver 3) required resources for Butrans and expected future pipeline
Messaging	8 Significantly improve physician awareness and understanding of the new label, primarily through medical resources and training of the sales reps on ways to appropriately involve Medical
	9 Develop new prescriber segmentation in light of the new label to target AD messaging
HECON/ payor	10 Build/refine HECON messages and pro-actively engage with payors

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Overview of key recommendations (2/2)

Key Recommendations

Access & availability

- 11 Significantly increase insight on pharmacy-level dynamics through purchasing of new data (e.g., pharmacy segmentation in OMS, EMR data on prescriptions written) and create a working team with responsibility for monitoring the situation on a monthly basis
- 12 Initiate direct executive committee level engagement with pharmacy leadership to show urgency and build a win-win partnership for patients
- 13 In parallel, aggressively explore alternative distribution options (e.g., pharmacy direct mail order) via a senior level cross-functional team
- 14 Develop a comprehensive Part D strategy that includes review of the rebate plan and local field surge to mitigate commercial plan spillover
- 15 Incorporate differential local market access conditions into standard DM business planning, including partnering with managed care Account Executives for planning

Commercial resourcing/ benchmarking

- 16 As part of the upcoming cycle, broadly consider increasing current resourcing levels for OxyContin, with clear business cases and ROIs

Market demand & forecasting

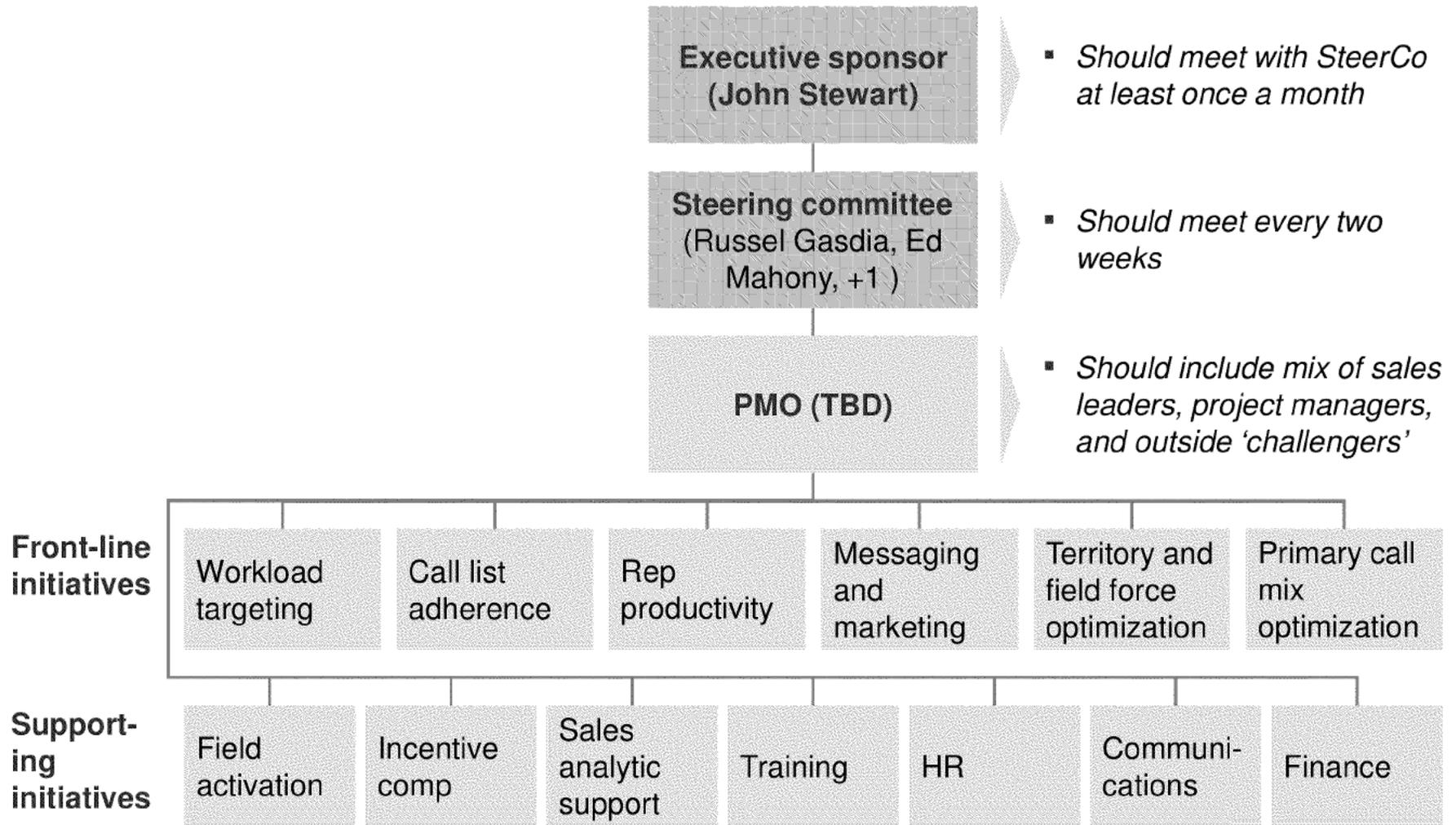
- 17 Increase market research efforts particularly in quantifying emerging marketplace dynamics, including additional resources to purchase new data (e.g., corporatized providers, complete formulary status) and additional capacity to analyze the data and recommend specific actions
- 18 Shift to more 'local market analyses' (regional marketing) to uncover the most relevant insights and opportunities that may not be noticed/incorporated at the national level
- 19 Consider establishing a Sales Analytics function to 'own' and deliver improved tools and insights to the field, working in close partnership with the FAMR group

Contents

- **Turbocharge Purdue sales engine**
- Messaging
- HECON
- Access & availability
- Commercial resourcing/benchmarking

1 Create a senior leadership team and task them to develop a workplan

Purdue should establish a governance structure to manage the transformation

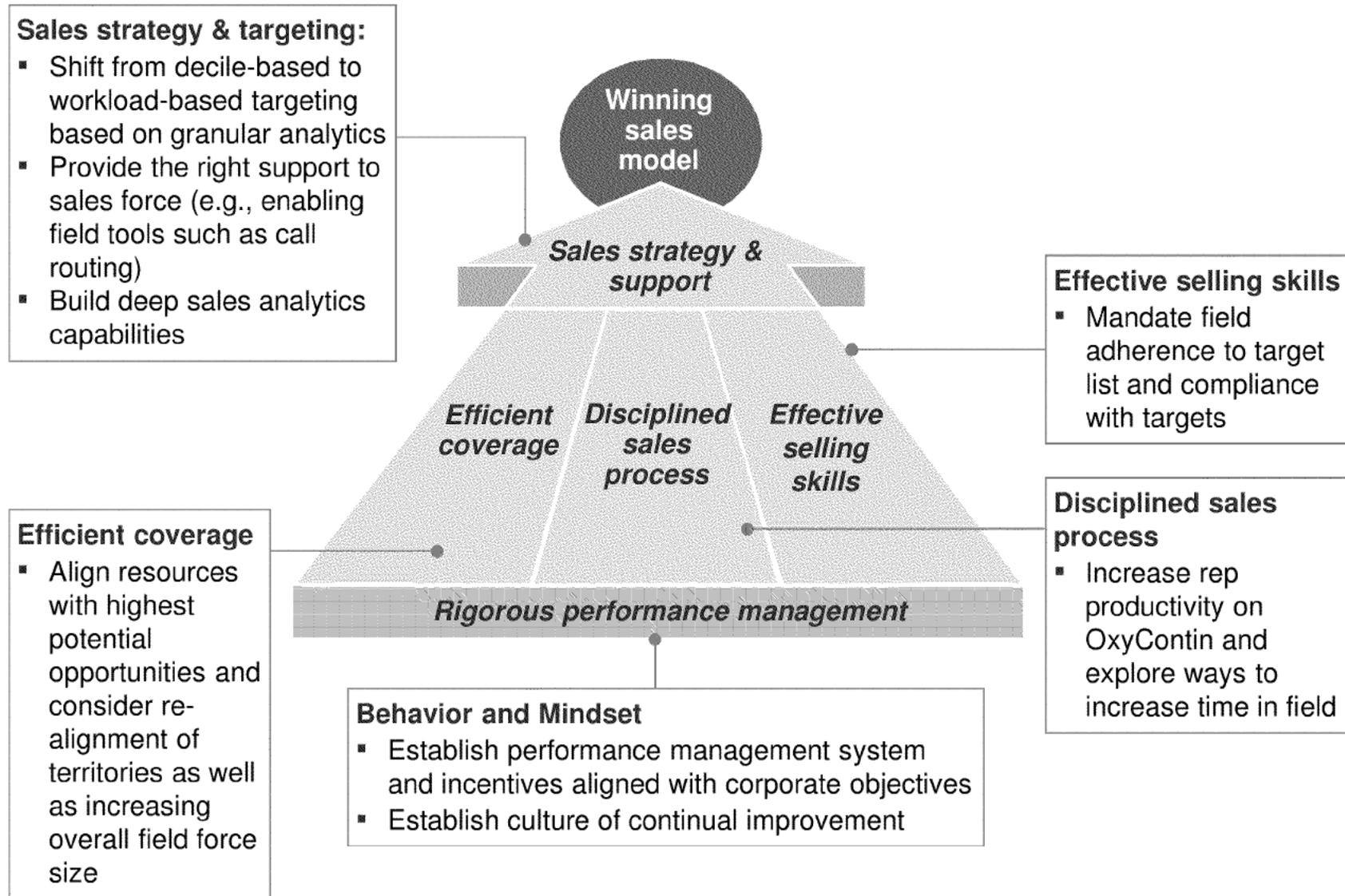


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- 1 Create a senior leadership team and task them to develop a workplan

A winning sales model requires excellence across 5 major levers



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- 1 Create a senior leadership team and task them to develop a workplan

We recommend comprehensive workstreams addressing both frontline and enabling initiatives

	Initiative	Major objectives
Frontline initiatives	1 Workload targeting	Develop target list with frequency based on workload factoring (e.g., managed care, NBRx)
	2 Call list adherence	Create a program to enable reps to improve call list adherence (e.g., call routing tools)
	3 Rep productivity	Mandate in increase in OxyContin P1s to current target level (55/rep/month) and find ways to increase time in field
	4 Messaging and marketing	Refresh OxyContin messaging, and build front-end sales tools to allow delivery and tracking of tailored messages
	5 Territory and field force optimization	Increase field force size and re-align territories to align to OxyContin potential and adjust market basket
	6 Primary call mix optimization	Optimize call balance between OxyContin and Butrans
Enabling initiatives	7 PMO	Overall project management to oversee workstreams, set timeline, and set targets
	8 Field activation	Coordinate successful rollout of initiatives in the field
	9 Incentive compensation	Revise incentive comp to align with front line initiatives and sales targets
	10 Sales analytic support	Support to sales force initiatives, including impact tracking, and front end sales tools
	11 Training	Create training programs for key initiatives and roll out to field
	12 HR	Support organizational needs, recruitment, and drive change management
	13 Communications	Ensure successful internal communication across the organization
	14 Finance	Manage budget requests and set revenue targets

1 Create a senior leadership team and task them to develop a workplan

A mix of roll out methods needs to be tailored to Purdue’s needs

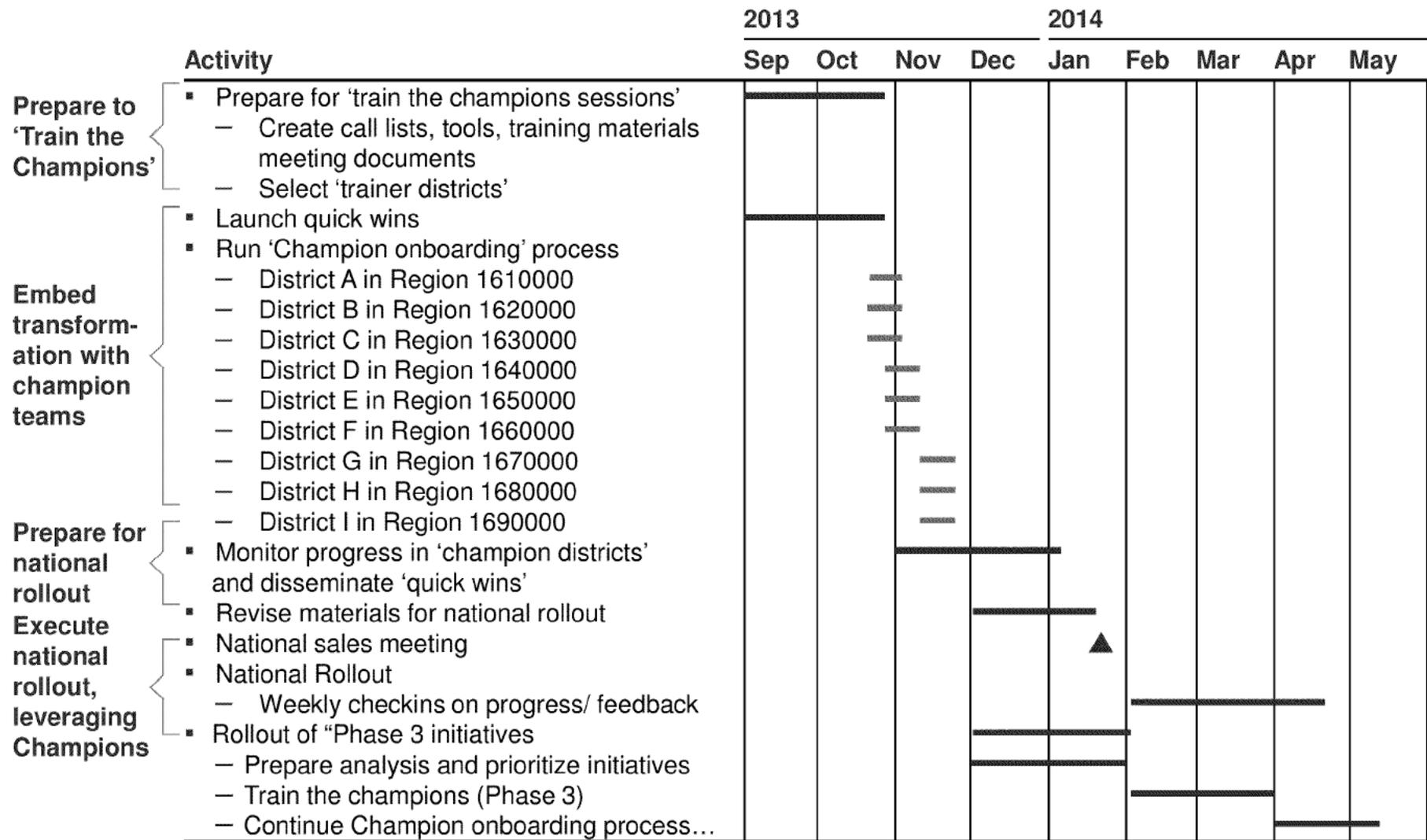
Roll out method	Description	Key considerations
A. “Cell to Cell”	<ul style="list-style-type: none"> Identify one high performance rep per district to develop deep understanding of the transformation Use these reps as trainers for the other reps in their field 	<ul style="list-style-type: none"> Training reps may not be able to train all other reps at the same time, leading to slower roll out Reliance on training reps to successfully perform training Sufficient number of initial “cells” required to ensure fast roll-out
B. “Wildfire”	<ul style="list-style-type: none"> Identify champion reps and use these high performance reps to lead their own “learning teams” of reps Motivate champions and learning teams through competitions 	<ul style="list-style-type: none"> Strong buy in and deep understanding of new approach required by champions Champions operate as entrepreneurs, leading to less “hands on” headquarter involvement
C. “Headquarter rollout”	<ul style="list-style-type: none"> Headquarter implementation team conducts “road shows” to train field force by region/district, in collaboration with cross functional team including sales training and analytics 	<ul style="list-style-type: none"> Headquarter involvement and presence required Less focus on champions/successful reps, leading to potentially lower field buy-in
D. “Pilots First”	<ul style="list-style-type: none"> Roll out new sales approach in select pilot territories Use findings from pilots to drive buy in from field 	<ul style="list-style-type: none"> Pilots delay full roll out, and successful implementation relies on pilot results

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1 Create a senior leadership team and task them to develop a workplan

EXAMPLE - Field activation: Potential rollout schedule (illustrative)



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- 1 Create a senior leadership team and task them to develop a workplan

EXAMPLE - Field activation: Potential key elements to consider

Key elements of field activation	Rationale
<ul style="list-style-type: none"> ▪ Champions <ul style="list-style-type: none"> – One high performing district per region – Set of champion reps who are “natural pilots” – i.e., high performing and already exhibit many of the future state behaviors – DMAC (DM Advisory Council) and RFTs (Regional Field Trainers) 	<ul style="list-style-type: none"> ▪ Strong buy in and deep understanding of new approach required by champions ▪ Champions operate as entrepreneurs and add local/field-oriented credibility, however this is balanced by headquarter involvement for recognition and rewards
<ul style="list-style-type: none"> ▪ HQ led “road shows” <ul style="list-style-type: none"> – Train field force by district, in collaboration with cross functional team including sales training and analytics – ~3 month program of visiting districts, incorporating feedback, and embedding best practices 	<ul style="list-style-type: none"> ▪ Signal strong HQ commitment to sales force transformation ▪ Ensure that HQ policies are informed by field perspectives ▪ HQ facilitates collection and dissemination of best practices
<ul style="list-style-type: none"> ▪ Competitive recognition program <ul style="list-style-type: none"> – Competition for results among all districts (e.g., largest increase in scripts among high workload physicians) – At key intervals (e.g., 1 month, 3 months, 6 months) the teams with the strongest results present to HQ leadership and get national recognition 	<ul style="list-style-type: none"> ▪ Balances benefits of team-based activity (e.g., collaboration, sharing of best-practices, accountability) with benefits of competition ▪ Goes beyond incentive compensation to include recognition by peers and high-level executives can be as powerful a motivator as financial incentives

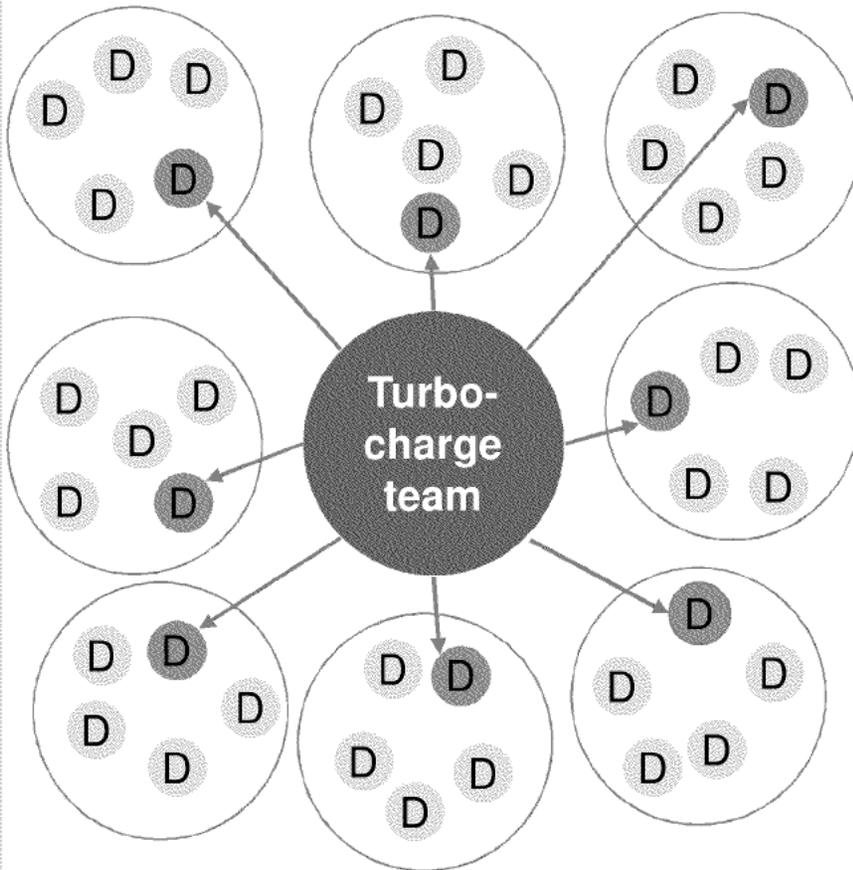
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- 1 Create a senior leadership team and task them to develop a workplan

EXAMPLE - Field activation

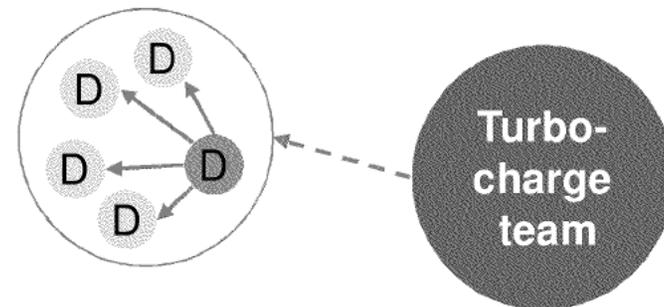
CONCEPTUAL

HQ 'trains the champion districts' through a ~1 week-long change management program with one district from each region...



... After National Sales Meeting, each 'Champion district' helps onboard other districts in its region, with more limited support from the turbocharge team

In each region:



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- 1 Create a senior leadership team and task them to develop a workplan

EXAMPLE - Field activation: 'Train the champion districts'

Details follow

Small cross-functional HQ teams supported by McKinsey will visit one district per region for ~1+ weeks

Sample schedule of champion district embedding process

Day	Key Activities
1-2	<ul style="list-style-type: none"> Prepare district level analysis and materials
3	<ul style="list-style-type: none"> Meet with DM and RM to walk through analyses supporting sales transformation initiatives Gain DM and RM buy-in on initiatives Refine how initiatives will be rolled out in the district
4	<ul style="list-style-type: none"> Hold district-wide workshop where rationale for initiatives are explained to reps Reps review new target list in workshops
5-7	<ul style="list-style-type: none"> Conduct ride-alongs with select reps to gain buy-in and hear input Refine target list, gather feedback on enablers as needed
8	<ul style="list-style-type: none"> Refine local messages to field/ share feedback Debrief with DM to ensure alignment on next steps Codify learnings for sharing back to broader effort
Every week	<ul style="list-style-type: none"> Districts hold weekly calls Field enablement team remains "on call" support for reps Help district prepare for role in National Sales Meeting

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- 1 Create a senior leadership team and task them to develop a workplan

EXAMPLE - Field activation: Sample workshop agenda for district reps

Key elements for a successful workshop include...

- Coordinated support – Mix of RM, DM, RFT facilitate workshop together
- Emphasis on transparency – discuss identification and sizing methodology
- Field empowerment – enable reps to modify / eliminate some identified prescribers (e.g., if inaccessible)
- Focus on immediate execution – e.g., incorporate prescribers into call plan via working session

Sample agenda

Activity

- Overview of sales transformation initiatives
 - Share key analyses/ local and national
 - Discuss goals and timing of turbocharge effort
 - Explain role of Champion districts
- Deep dive on sales transformation opportunities, e.g.,
 - High-workload physicians
 - Adherence
 - Call volume
- Integration of the sales transformation initiatives into your business
 - Call cycle planning refresher
 - Discuss best way to incorporate into your business
 - Actual call cycle plan adjustments
- Immediate next steps

2 Establish an incremental revenue goal vs forecast

The revenue upside from sales re-targeting and adherence could be up to \$250M

PRELIMINARY

Based on ZS Response curves

Lever	# of MDs	PDEs per MD		Total PDE change	TRx impact per MD ³	Total impact ⁴				
		Current (Avg.)	Suggested			TRx	Revenue			
Increase reach on decile 5-10 MDs not currently called	All	8,700								
	Reachable	~70% ¹								
	MDs reached	6,000	0	→	12-24 ²	103k	69	411k	\$177M	
Increase frequency on decile 5-10 MDs with suboptimal call frequency			16,400	10	→	12-24 ²	152k	24	387k	\$166M
Reduce calls on decile 0-4 MDs			43,000	5	→	0	(110k)	(5)	(210k)	(\$90M)
Total impact						145k		587k	\$250M	

- 145k incremental PDEs could be achieved by either
 - Increasing current Oxy P1 calls from ~37/rep/month to the 50/rep/month (90% of target) plus adding an incremental 65 reps or
 - Keeping productivity at current level and adding ~190 reps. Typically an additional 10-20% reps are required given inefficiencies in real-world geographic deployment, thus the deployed total could be as many as 210-230 reps

- Opportunity for up to \$250M impact from:
 - Targeting high value prescribers
 - Performing budgeted target Oxy P1s
- Assumes no change to Butrans call plan

NOTE: Purdue call numbers based on blended and annualized Q1+Q2

1 15% discount on access, 10% discount on territory misalignment, 11% discount on other MDs not reachable (e.g. Region 0, IR only)

2 24 calls decile 6-10, 12 calls on decile 5; 3 Based on ZS call responsiveness curves by decile; 4 On annualized basis

SOURCE: ZS Associates, IMS, Purdue call data, team analysis

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3 Shift Purdue's sales targeting from decile to workload

We recommend shifting from decile-based targeting to workload-based targeting more standard in the industry

Sales targeting approach

Description

From

- Decile-based targeting
- Use market deciles based on TRx to identify biggest writers
- Reps prioritize largest writers and track share over time

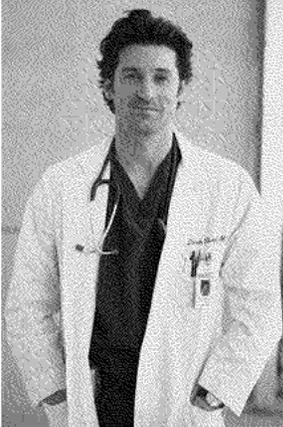
Key success factor in workload system is adherence to call list

To

- Workload-based targeting
- Use multiple data sets and state-of-the-art analytics to determine most incremental upside for each call
- Target prescribers based on (in addition to ERO decile):
 - New-to-brand writing
 - OxyContin writing
 - Other branded product writing
 - Managed care access
 - Specialty
- Reps prioritize their calls to maximize sales for their territory
- Targeting reflects local micro-market conditions

3 Shift Purdue's sales targeting from decile to workload

Including additional factors such as Gx penetration and NBRx may result in a more optimized call plan

Physician A		Physician B	
			
Market decile¹	10	Market decile	10
Oxy TRx:	348	Oxy TRx:	298
ERO TRx:	1,353	ERO TRx:	1,326
Generic penetration:	28%	Generic penetration	72%
NBRx:	47	NBRx:	24

- Not all physicians in the same market decile are “created equal”
- There may be greater potential in increasing call effort on prescribers with favorable characteristics (low Gx writing, high NBRx, high market access)

¹ Data based on Q1 2013

4 Increase field effort significantly for OxyContin

The sales force is currently performing only 67% of the budgeted primary calls on OxyContin

Average monthly OxyContin calls Jan – June 2013			
	P1	P2	Primary Detail Equivalents (PDEs¹)
Per Rep			
▪ Target ²	55	59	84
▪ Actual ³	37	58	66
Field force total			
▪ Target	28,875	30,713	44,231
▪ Actual	19,600	30,400	34,800
▪ % actual v. target	67%	99%	79%

1 P1s plus 50% of P2s

2 Target based on published call plan (e.g. 2 calls/mo on Oxy Supercores and 1 call/mo on Cores)

3 Assuming 525 active sales reps

SOURCE: Purdue sales reports; Purdue internal interviews; team analysis

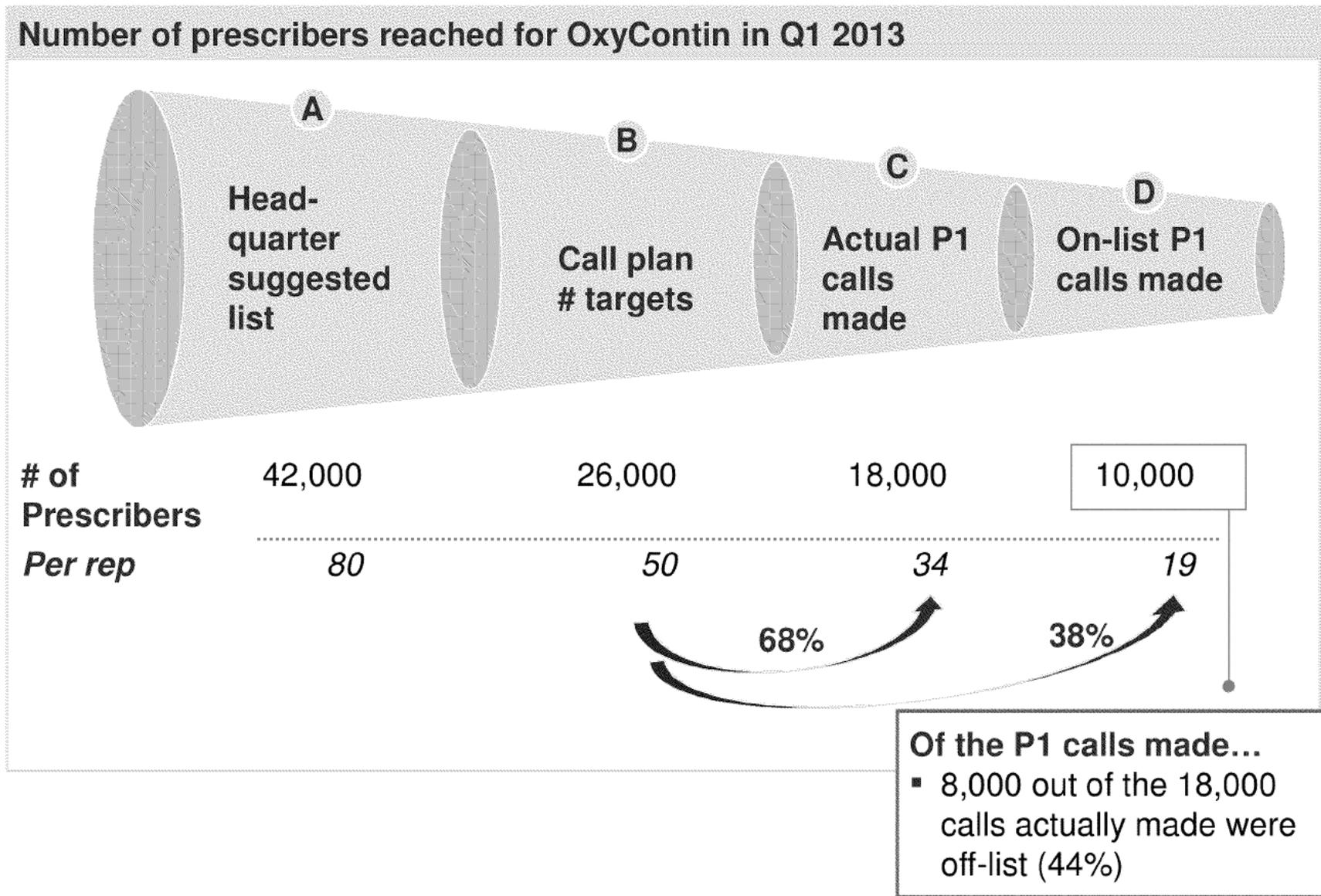
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- 5 Mandate field compliance with targets and align the incentive program to match OxyContin prioritization

Adherence to the call list is only ~55%



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SOURCE: ZS Associates report; Purdue call data; Team analysis

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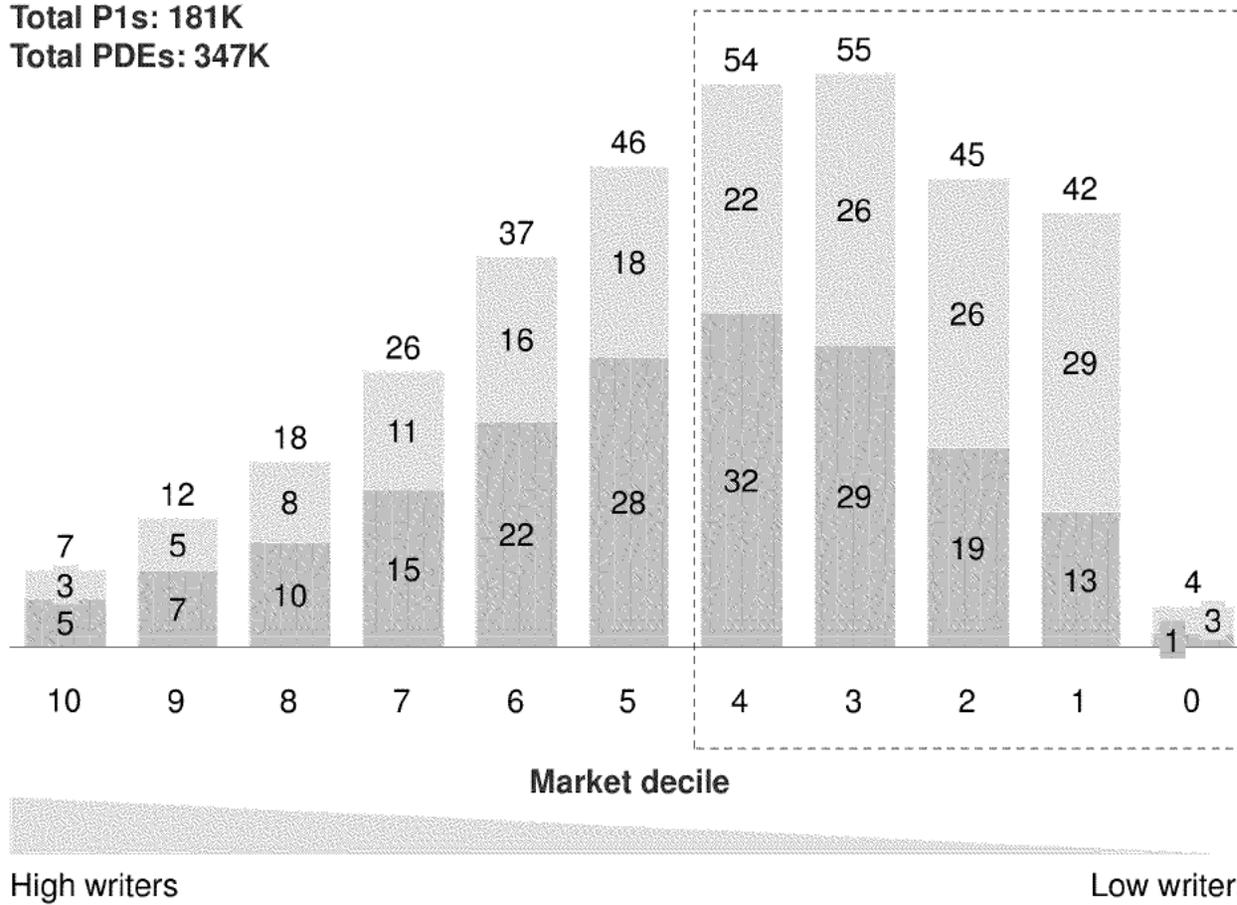
5 Mandate field compliance with targets and align the incentive program to match OxyContin prioritization

Currently, over 50% calls are made to low decile prescribers

Secondary details (PDE equiv)¹
Primary details

Number of OxyContin calls by market decile², annualized based on Q1 2013
Number of Primary Detail Equivalents (PDEs); thousands

Total P1s: 181K
Total PDEs: 347K



- 52% of OxyContin primary calls (95K) and 57% of primary detail equivalents are made to low-market decile prescribers (0-4)
- Given that there are ~14,000 uncalled physicians in deciles 5-10, there is significant opportunity to shift calls to higher potential prescribers
- Reasons for low-decile calls include:
 - Lack of access to higher-deciles
 - Geographic territory definition
 - Lack of rep call list adherence
 - Opportunism (physician in same office)
 - Calling on KOLs

1 PDEs calculated as 1.0 x P1 calls + 0.5 x P2 calls
2 Market decile based on ER-IR market basket as defined by ZS Associates

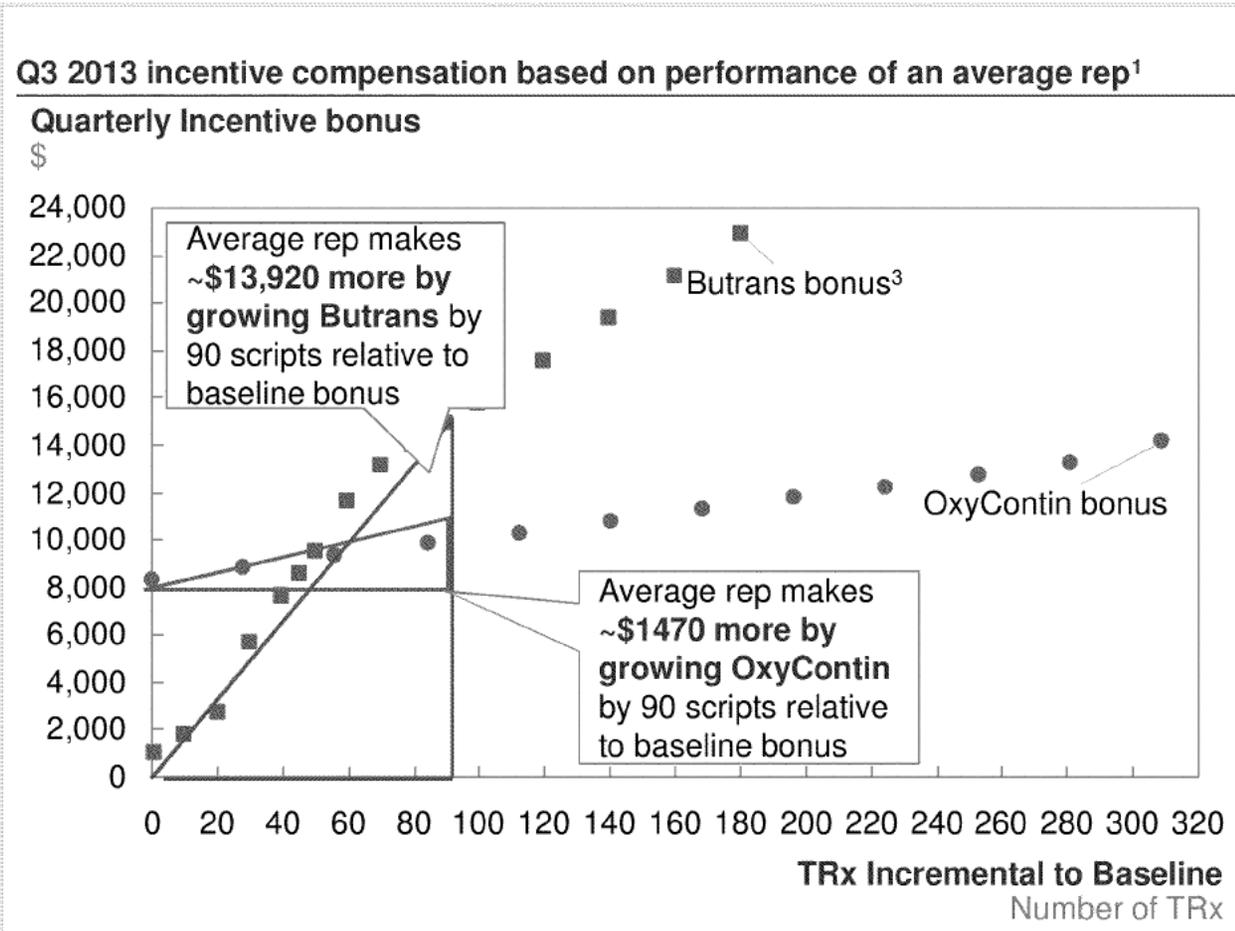
SOURCE: IMS, Purdue call data

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5 Mandate field compliance with targets and align the incentive program to match OxyContin prioritization

Incentive comp structure is steeper for Butrans, making each incremental Butrans script more valuable to reps relative to OxyContin



- For average rep, incremental scripts relative to baseline worth far more for Butrans than for OxyContin, because slope of bonus curve is steeper for Butrans
- Purdue, in contrast, makes 67% more if rep sells 90 OxyContin incremental scripts than 90 Butrans incremental scripts (\$30k vs \$18k)²
- Additionally, incentive comp could incorporate call list adherence and rep productivity

1 Uses Q3 2013 incentive plan. Assumes 232 Butranscripts/ quarter for average rep, and 2809 OxyContinscripts/ quarter for average rep.

2 Assumes average \$267 gross price/ Butransscript and \$447 gross price/ OxyContin script. Lastly assume net revenue (net of rebates and fees) is ~75% of gross price.

3 Balanced portfolio bonus included in Butransbonus calculation as is indexed to Butranscripts

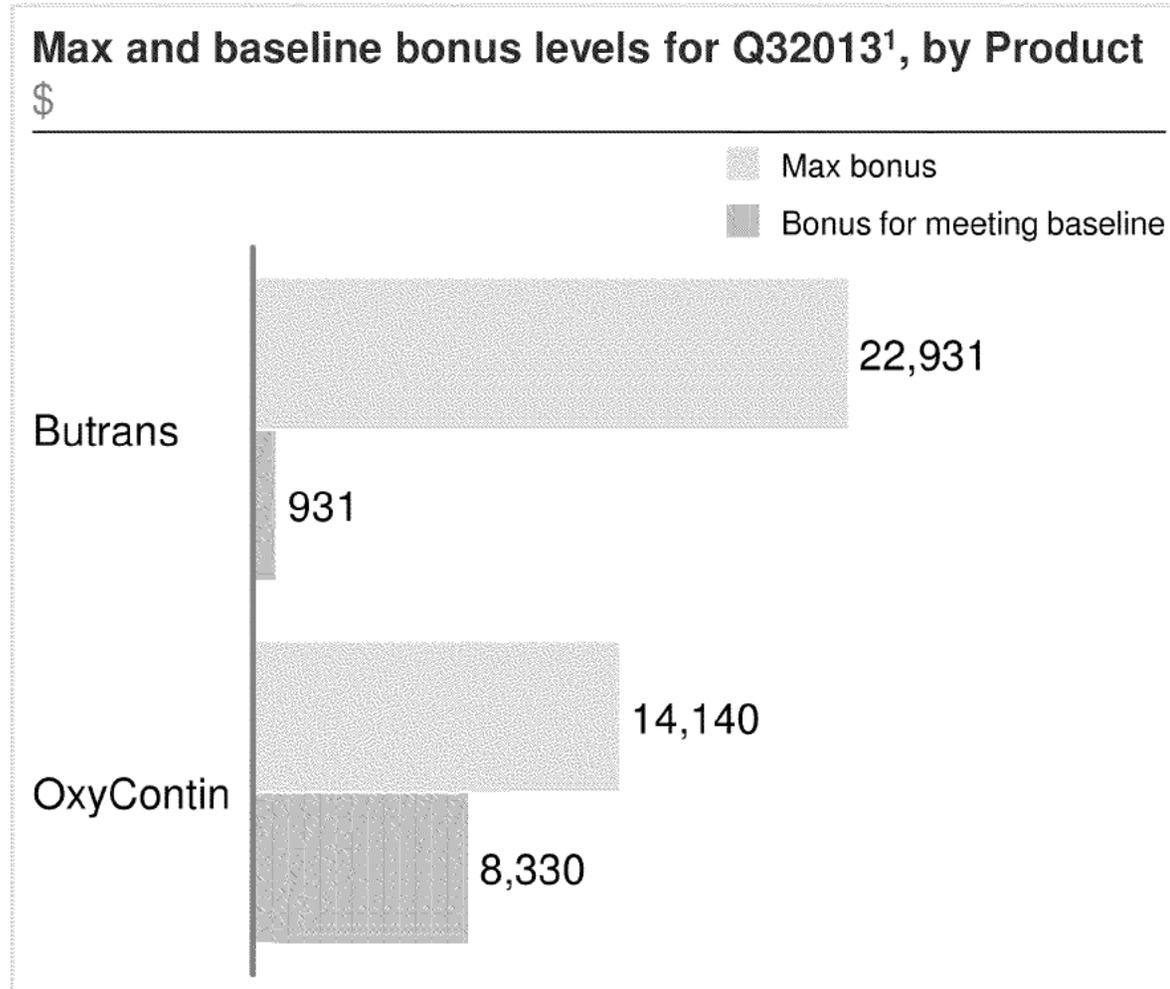
SOURCE: Purdue sales; Purdue Budget; team analysis

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- 5 Mandate field compliance with targets and align the incentive program to match OxyContin prioritization

Max level of bonus for Butrans at a higher level than for OxyContin



Max level of bonus for Butrans is 60% higher than for OxyContin

¹ Uses Q3 2013 incentive plan. Assumes 232 Butransscripts/ quarter for average rep, and 2809 OxyContinscripts/ quarter for average rep. Balanced portfolio bonus indexed to Butransscripts

SOURCE: Purdue sales; Purdue Budget; team analysis

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7 Consider the addition of ~65-230 OxyContin reps and other options

65 to 190 additional reps will be needed to capture full opportunity depending on the increase in productivity of the sales force

	Description	Additional reps ¹	Estimated impact ²	Rationale/ What you have to believe
1 Optimize and expand³	a Shift calls to high-value prescribers and increase rep productivity to 90% of target (e.g. 50 v. 55 calls/rep/mo); add reps to fill gap	65+	↑ +\$250M ↓	<ul style="list-style-type: none"> Desire to maximize potential opportunity Believe current field force can improve both productivity and adherence
	b Improve targeting, improve productivity by ~20%, and add reps to fill gap	115+		<ul style="list-style-type: none"> Sales force has potential to moderately improve productivity
	c Shift calls to high value prescribers, no change in rep productivity, add reps to fill gap	190-230		<ul style="list-style-type: none"> Believe call list adherence can be improved but challenging to improve productivity Desire quick impact
2 Optimize with current capacity	<ul style="list-style-type: none"> Shift calls to high-value prescribers and increase rep productivity to 90% of target (e.g. 50 calls/rep/mo); do not add reps 	None	+\$220M	<ul style="list-style-type: none"> Believe current field force can improve both productivity and adherence simultaneously

- Estimates do not include haircut for execution
- Additional reps required could be larger to:
 - Account for territory alignment
 - Increase field force size ahead of new product launch

1 Does not account for territory mis-alignment

2 Pro-forma relative to 1H 2013 performance, annualized

3 All scenarios assume 24 calls per year on deciles 6-10, 12 calls on Decile 5

SOURCE: IMS; Purdue call data; ZS Associates; McKinsey analysis

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8 Improve physician awareness and understanding of new label, primarily through medical and appropriate training of sales reps

Awareness of abuse deterrence and impact on prescribing varies amongst prescribers (1/3)

Key themes	Supporting evidence
Prescriber awareness of abuse deterrence and label change is mixed	<ul style="list-style-type: none"> ▪ “I am only vaguely aware of abuse deterrence”- <i>Primary care practitioner</i> ▪ “In the end it doesn’t really hurt anyone, to the extent that I understand the technology” – <i>Private practitioner and assistant professor at large medical school</i> ▪ “I know (abuse deterrent reformulations) exist”- <i>Family practitioner</i> ▪ “For some people (abuse deterrence) probably matters, such as first time prescribers and non-specialists, but for specialists, (the label change) probably doesn’t make much of a difference because they were already aware of the reformulation (before the label change)- <i>Anesthesiologist and Head/Neck surgeon</i> ▪ “I knew already since 2010 about (OxyContin’s abuse deterrence), so the new labeling doesn’t make big difference” – <i>Physical Rehabilitation and Pain specialist</i>
Most prescribers are concerned about abuse, but attempt to establish measures to protect themselves	<ul style="list-style-type: none"> ▪ “(Concern about abuse) hasn’t changed that much, because (prescribers in practice) follow preferred and recommended guidelines- <i>Chief of Interventional Spine and Pain Management at major hospital</i> ▪ “(Abuse is) main concern in every practice...and we need (abuse monitoring) resources because of the nature of our practice” – <i>Pain specialist in private practice</i> ▪ “I’m always worried about (abuse) and definitely see it”- <i>Internist</i> ▪ “If I get an inkling, I check immediately and warn the patient” – <i>Family doctor in family group practice</i> ▪ “I worry about diversion...same thing for Adderall, valium, etc...”- <i>Family practitioner in private practice</i>

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SOURCE: McKinsey prescriber interviews

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8 Improve physician awareness and understanding of new label, primarily through medical and appropriate training of sales reps

Awareness of abuse deterrence and impact on prescribing varies amongst prescribers (2/3)

Key themes	Supporting evidence
Opinions on impact/efficacy of abuse deterrence vary	<ul style="list-style-type: none"> <li data-bbox="653 372 1822 479">▪ “Abuse deterrence is a good thing...I would choose abuse deterrent drugs every time, if patient insurance covers it” – <i>Anesthesiologist and Pain Management Physician at major hospital</i> <li data-bbox="653 508 1829 616">▪ I had extremely curtailed the prescription for OxyContin, but now that I see the clinical difference, I am much more comfortable writing for it”- <i>Private practitioner with pain management fellowship</i> <li data-bbox="653 645 1864 684">▪ “It’s a win-win for everyone, as long as the price is ok” – <i>Physician at major hospital</i> <li data-bbox="653 713 1850 787">▪ “(I would) certainly (prescribe abuse deterrent formulations)...you never know who you’re dealing with”- <i>Internist</i> <li data-bbox="653 816 1864 958">▪ “(OxyContin reformulation is a) much better reformulation...but having said that, many pain doctors are still humans and suffer from emotional inhibition bc of all the bad press it had, bc it still has the name OxyContin”- <i>Anesthesiologist with fellowship in pain management</i> <li data-bbox="653 987 1843 1060">▪ “(Abuse deterrent formulations) are good faith effort to show reasonable response to the abuse issues”- <i>Chief of Interventional Spine management at large hospital</i> <li data-bbox="653 1089 1843 1163">▪ “These are (nonetheless) control substances, whether they can be abused or not, we have to assume they are abused”- <i>Family practitioner in private practice</i>

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8 Improve physician awareness and understanding of new label, primarily through medical and appropriate training of sales reps

Awareness of abuse deterrence and impact on prescribing varies amongst prescribers (3/3)

Key themes	Supporting evidence
Concerns remain that technology does not address oral abuse	<ul style="list-style-type: none"> ▪ “I don’t know how effective abuse deterrence is in practice...Just because you can’t crush something, doesn’t mean you can’t eat all your pills at once” – <i>Primary care physician specializing in internal medicine</i> ▪ “No formulation on the market that is overdose resistant” - <i>Pain Management and Physical Medicine and Rehabilitation</i> ▪ The only abuse deterrence I would put any stake in is when you add niacin (to prevent oral abuse)”- <i>Anesthesiologist and Pain Management Physician at major hospital</i>
Less informed prescribers ask for additional information and education around abuse deterrent formulations	<ul style="list-style-type: none"> ▪ “The FDA decision [on OxyContin] should carry weight...data would very valuable...should be incentive to use this medicine“- <i>Addiction specialist</i> ▪ “There are several studies on abuse deterrence out there...what we need is information from trustworthy sources” – <i>Anesthesiologist and Head/Neck surgeon</i> ▪ “(It would be good) if pharma companies made it more clear that this drug is now a preferred medicine”- <i>Private practitioner and assistant professor at large medical school</i> ▪ “I haven’t seen any data that shows effectiveness of abuse deterrence... not statistics” – <i>Family practitioner</i> ▪ “I want to see that (the drug) is not diverted and used on the street...I don’t find the (existing) data all that compelling”- <i>Anesthesiologist and Pain Specialist at large hospital</i> ▪ “If there is enough education, we may be using them more frequently, to mitigate abuse” – <i>Family doctor in family group practice</i>

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8 Improve physician awareness and understanding of new label, primarily through medical and appropriate training of sales reps

Current MSL practices at Purdue and industry practice

	<u>Current Purdue practice</u>	<u>Industry practice</u>
Payors	<ul style="list-style-type: none"> ▪ Avoid bringing in MSLs unless payor makes unsolicited request 	<ul style="list-style-type: none"> ▪ MSLs target payors for delivery of medical content related to product
Prescribers	<ul style="list-style-type: none"> ▪ MSLs do not target any prescribers (including KOLs) to deliver OxyContin-related medical information 	<ul style="list-style-type: none"> ▪ MSLs target KOLs for delivery of medical content related to product ▪ MSLs may also target other prescribers who have unmet medical information needs

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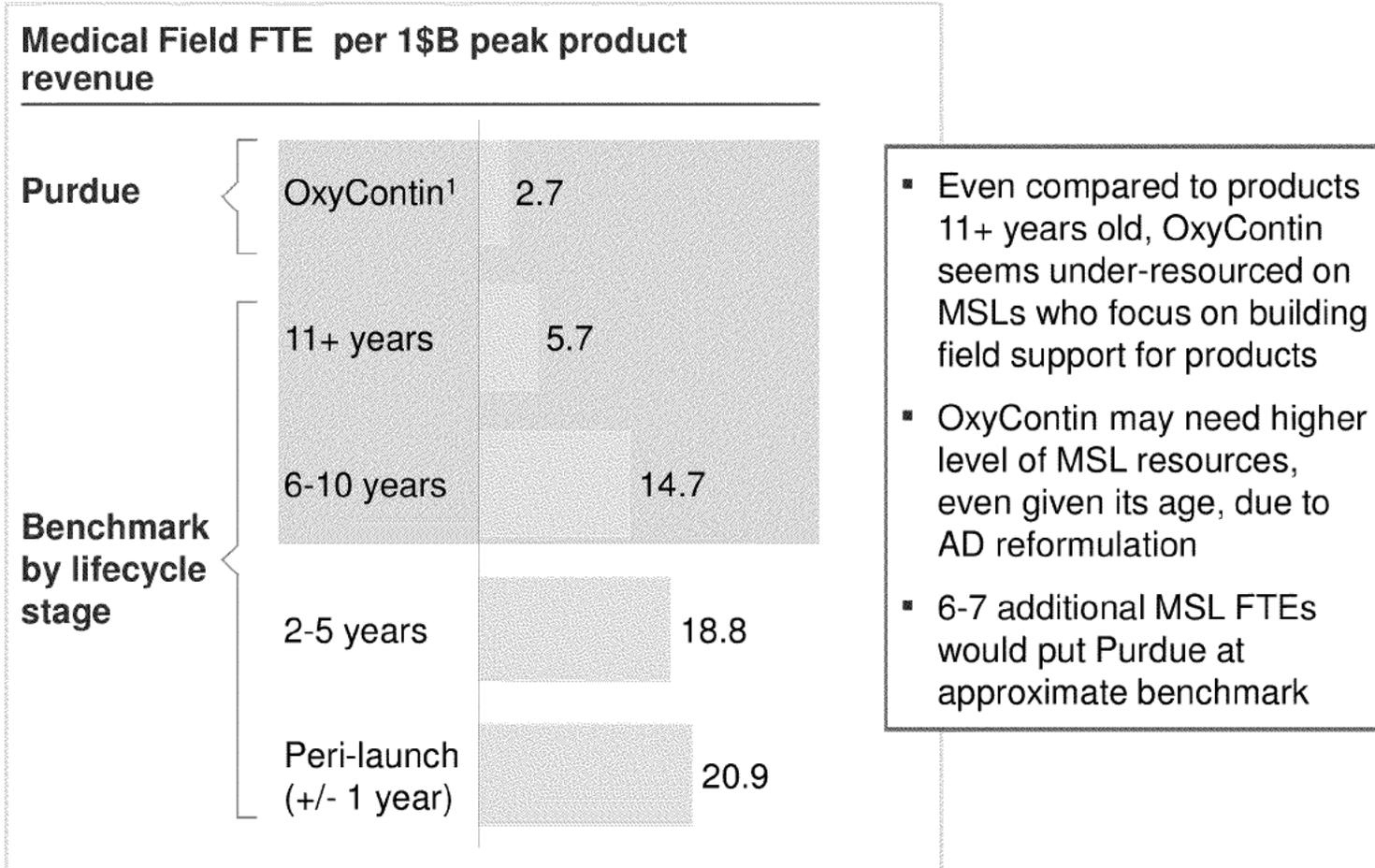
SOURCE: Purdue HECON; Purdue national payor accounts; Purdue Medical Affairs; McKinsey experts

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8 Improve physician awareness and understanding of new label, primarily through medical and appropriate training of sales reps

OxyContin appears somewhat under-resourced on MSLs compared to industry benchmarks

■ Most relevant comparisons



¹ 6 MSLs for \$2.2 bn net OxyContin sales in 2012. Only MSLs dedicated to field information dissemination were counted.

SOURCE: Purdue Medical Affairs; McKinsey benchmarks

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9 New prescriber segmentation should be developed in light of the new label

New OxyContin label can be used in messaging for specific groups of prescribers

Characteristics of prescribers who may be most impacted by OxyContin AD messaging

- Limited or no awareness of abuse deterrent formulations
- Low Oxy share of ERO
- High Oxy decliners with stable ERO writing
- Writers in areas of high abuse or high DEA activity

SOURCE: McKinsey team analysis

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Payor interviews indicate varied levels of awareness about reformulation, and particular lack of knowledge of how AD can affect opioid patient economics

Theme	Interview quotes
Differing levels of awareness about AD reformulation	<ul style="list-style-type: none"> ▪ “There was some data about AD... but at best, I would say it was inconclusive... it showed that you can’t do XYZ to the pill but it wasn’t definitive from a real-world perspective” – <i>Pharmacy Director (5.5 mn lives)</i> ▪ “I haven’t seen anything that has blown me away... the jury is still out... I don’t think the sample sizes are large enough for our kind of population” – <i>Regional Medical Director (212k lives)</i> ▪ “[OxyContin] did show that ‘drug liking’ among potential abusers [was lower]” – <i>Pharmacy Operations Manager (1.2 mn lives)</i>
Payors aren’t looking at cost of opioid users separately	<ul style="list-style-type: none"> ▪ “We don’t track PMPM for opioid users... it’s mostly generic, and we don’t even do it for OxyContin” – <i>Pharmacy Director (5.5 mn lives)</i> ▪ We haven’t tracked PMPM costs for opioid users... we’re more tracking ER visits [which are related] – <i>Regional Medical Director (212k lives)</i>
Even with AD benefits, cost savings of generics is heavy counterweight to using more expensive AD formulations	<ul style="list-style-type: none"> ▪ “If it could be proven that the product decreases/ eliminates abuse deterrence, yes, payors would consider it... but bottom line is very important, just having clinical advantage might not be enough” – <i>Pharmacy Director (5.5 mn lives)</i> ▪ “I could see improving access to AD drugs... but it’s difficult to know how these will be treated vs cost savings of generics” – <i>Regional Medical Director (212k lives)</i> ▪ “We want most people to be on generics and selective use of AD for vulnerable populations” – <i>Pharmacy Operations Manager (1.2 mn lives)</i>

- Lack of tracking of opioid patient costs suggests payors have not thought about the potential financial benefits of using AD formulations
- Interviews suggest that Purdue can add value to payors by bringing new HECON and Medical data

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11 Increase insight on pharmacy dynamics

Potential steps to increase insight on pharmacy-level dynamics

	Description	Rationale
Purchase additional pharmacy-level data	<ul style="list-style-type: none"> ▪ Store-level purchasing activity (to be validated that available) ▪ Segmentation of OMS data (e.g., mail order vs retail) 	<ul style="list-style-type: none"> ▪ Monitor impact of any chain-level policy changes ▪ Provides improved understanding of OxyContin sales by channel (e.g., mail order, independents, etc)
Use 'quick response' surveys to gauge overall pharmacy access	<ul style="list-style-type: none"> ▪ Cellphone-based surveys containing 1-2 questions about pharmacy access for opioids ▪ Targeted at prescribers and patients 	<ul style="list-style-type: none"> ▪ Enables Purdue to be more aware of major changes in overall pharmacy access for opioids and estimate patient impact
Create and hold accountable a cross-functional team	<ul style="list-style-type: none"> ▪ Small team comprised of trade, wholesale accounts, legislative affairs and sales ops ▪ Responsible for understanding pharmacy access for opioids 	<ul style="list-style-type: none"> ▪ Facilitates bringing relevant data together from different parts of Purdue ▪ Ensures individuals are accountable for working through data challenges to gain insight and sharing information
Use monthly dashboard to monitor pharmacy-level access	<ul style="list-style-type: none"> ▪ Dashboard includes: <ul style="list-style-type: none"> – Purchasing level and monthly change by chain and segments – Quick response survey results and monthly change – Calls into medical information line ▪ Regularly incorporated into Executive Committee meetings 	<ul style="list-style-type: none"> ▪ Consolidates indicators of pharmacy-level access issues ▪ Provides ongoing fact base that can be used in Executive Committee discussions

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13 Aggressively explore alternative distribution options (e.g., direct mail order) with a senior level cross-functional team

Examples of mail delivery set up by drug manufacturers

Drug name	Manufacturer	Vendor	Notes
		CVS	<ul style="list-style-type: none"> Launched early summer 2013, in order to combat counterfeits and mitigate social stigma for patients receiving the drug¹ Pfizer offering up to 30% discount through this channel¹
		Eagle Pharmacy	<ul style="list-style-type: none"> Launched early spring 2012, in order to stem conversion to generic²
 		Diplomat Specialty Pharmacy (Flint, MI) ⁴	<ul style="list-style-type: none"> Launched in Nov 2011 to stem conversion to generic³ Halted in April 2012, possibly in conjunction with overall halt of Lipitor promotion in US³ Diplomat bills patients' health plans; plans that have contracted with Pfizer pays lower price, while others pay more
		Unknown	<ul style="list-style-type: none"> Launched in May 2012 to stem conversion to generic⁵ Halted possibly in conjunction with overall halt of Plavix promotion in US in 2013⁵
 (narcolepsy drug, Schedule III)	 Jazz Pharmaceuticals	SDS Pharmacy	<ul style="list-style-type: none"> Xyrem can only be purchased through the "Xyrem Pharmacy"⁶ Doctor faxes script to SDS⁶ SDS validates prescription⁶ SDS Admission specialist calls to review⁶ insurance coverage and schedule shipment⁶

1 "A New Drug Sales model" The Motley Fool

2 "Industry Trend Analysis – AstraZeneca Copies Pfizer's Direct-to-Consumer Lipitor Tactic" Business Monitor International

3 "Rx Price Watch Case study: Efforts to Reduce Impact of Generic Competition for Lipitor" AARP Public Policy Institute; Lipitor website; "Pfizer stops promoting Lipitor in US" TheHeart.org

4 "Helping Lipitor Live Longer, Pfizer seeks to sell drug directly to patients, extending life after patent" WSJ

5 "FDA approves Generic Version of Plavix" WSJ

"No More Financial Assistance for Plavix from Bristol-Myers but are Generics Really the Same?" PTCA.org

6 Xyrem.com, "Cutting out the middleman: the rise of direct distribution in pharma" SecuringPharma.com

SOURCE: Internet research, McKinsey experts

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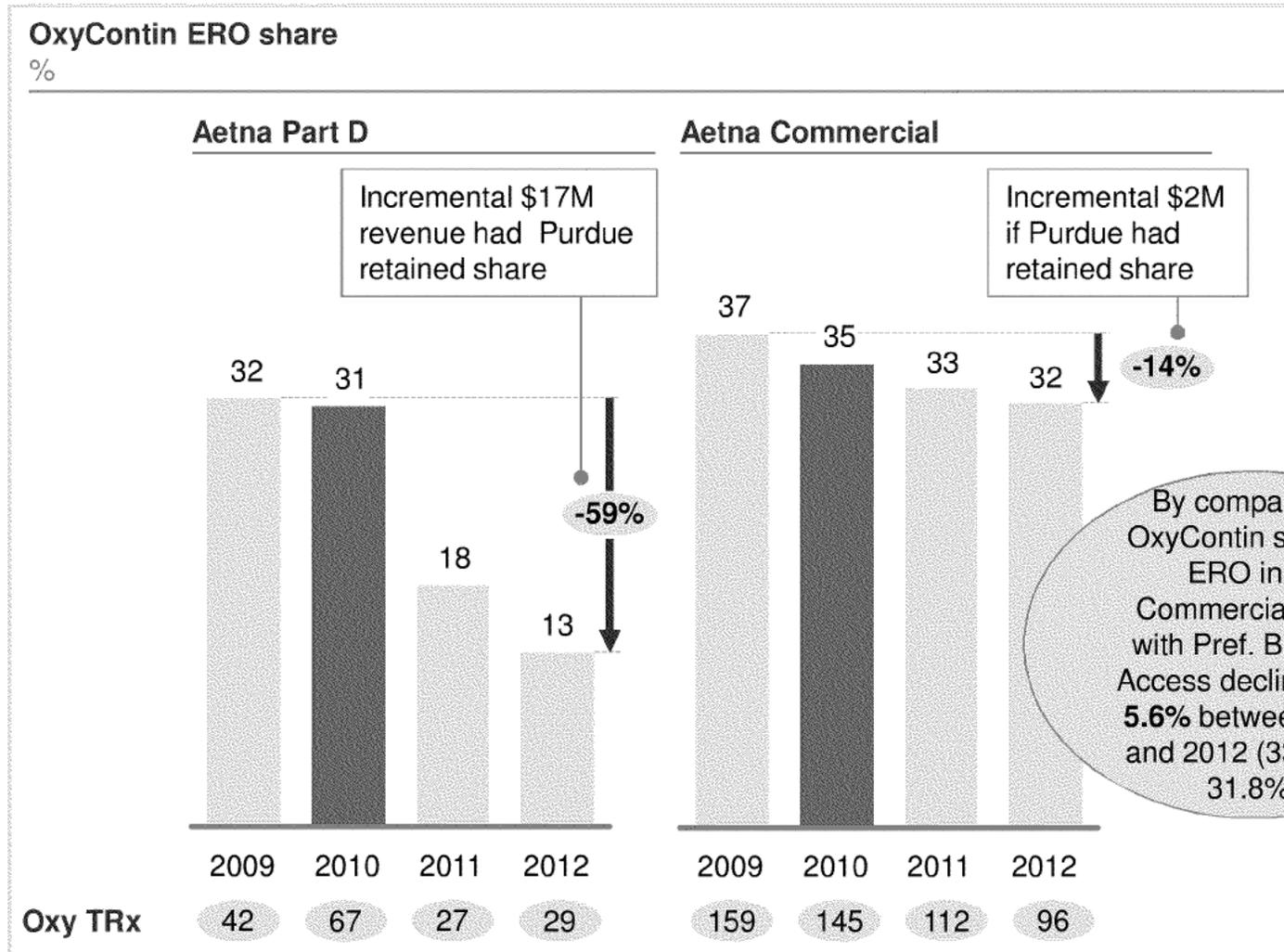
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14 Develop comprehensive Part D strategy that includes local field surge to mitigate commercial plan spillover

Loss of Part D formulary can spill over into Commercial

Summary of OxyContin performance in Aetna plans post loss of Medicare Part D formulary status

■ Year of to OxyContin loss of Part D formulary status in Jan 2010



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SOURCE: IMS PlanTrak; Purdue iGallery data; Purdue interviews; Team analysis

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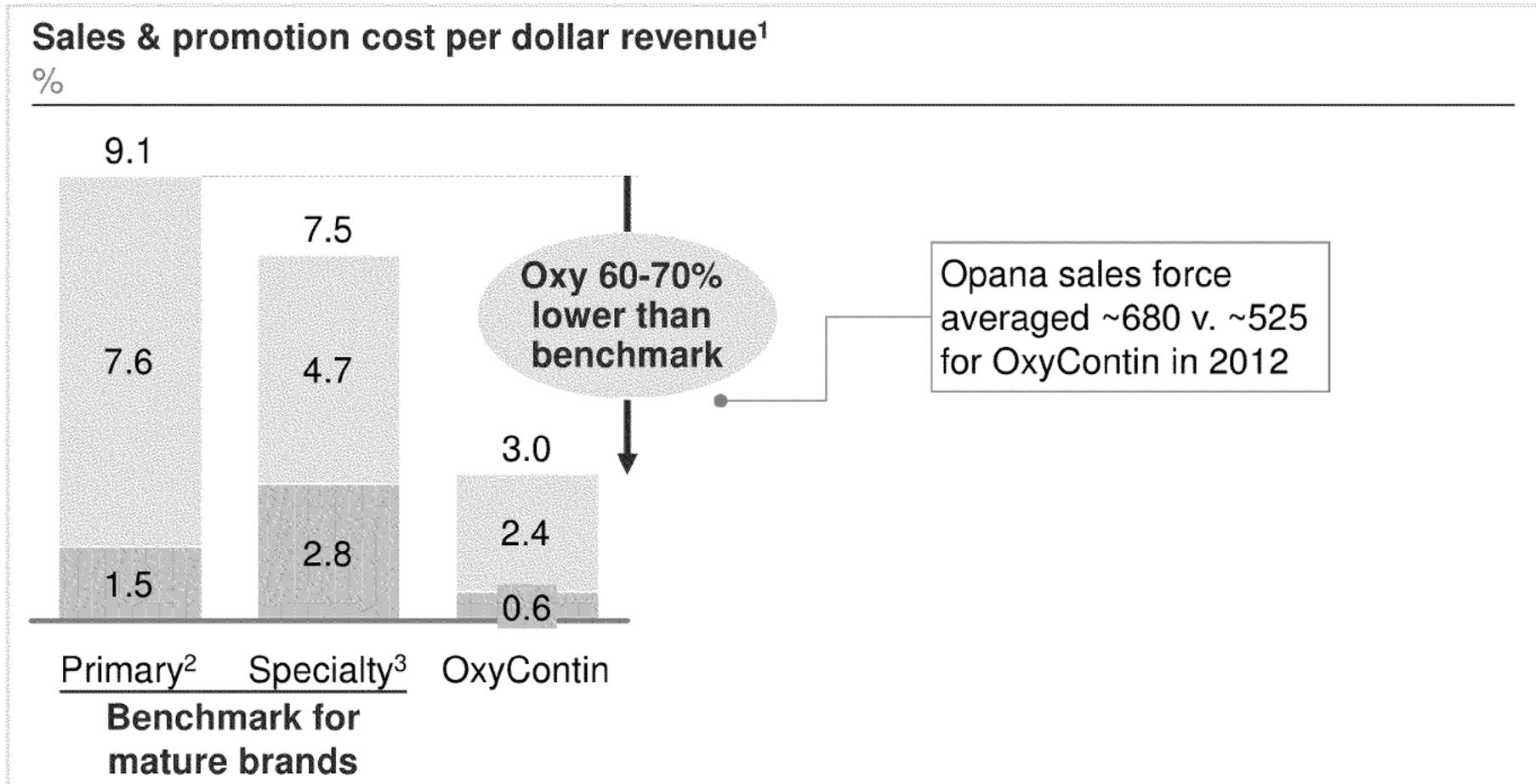
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16 Consider increasing resourcing levels in next budget cycle, with clear business cases and ROIs

OxyContin is resourced well below benchmark

■ Sales
■ Promotion



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1 DTC cost removed from benchmark set; Sampling is included (~0.4% of revenues); 2012 numbers for Purdue – 2013 allocation may be different
 2 N=6; average revenue of \$1.9B; average of 3 years before LOE. Average time on market 11 years (range 7-18 years)
 3 N=4; average revenue of \$1.1B; average of 2 years before LOE

SOURCE: McKinsey Commercial and Medical benchmarking; Purdue Finance; Encuity research; Team analysis

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Backup

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Sales force focus and execution findings and implications

Key Findings	Implications/Opportunities
<ul style="list-style-type: none"> ▪ 75% of total OxyContin decline is concentrated in prescribers that Purdue does not call on <ul style="list-style-type: none"> – 2/3 of these prescribers are in high market deciles (5-10) – More than 50% of OxyContin primary calls are to low-decile (0-4) prescribers ▪ Decile 5-10 prescribers write on average 25 times more scripts per prescriber than decile 0-4, indicating that a call on decile 5-10 prescribers is likely higher-impact than a call on decile 0-4 ▪ Analysis shows call sensitivity throughout range of PDEs 	<ul style="list-style-type: none"> ▪ There is significant opportunity to slow the decline of OxyContin by calling on more high-value physicians
<ul style="list-style-type: none"> ▪ Purdue sales force is making only 67% of OxyContin budget P1s (1H 2013) ▪ Purdue call volume is lower than industry benchmark ▪ P1 call attainment varies widely across territories 	<ul style="list-style-type: none"> ▪ Total OxyContin calls could be increased substantially if all reps performed the budgeted # of OxyContin calls
<ul style="list-style-type: none"> ▪ 45% of OxyContin calls are off-list 	<ul style="list-style-type: none"> ▪ Any change in targeting will need to be accompanied by a cultural change toward greater adherence
<ul style="list-style-type: none"> ▪ Incentive comp structure for reps is misaligned with Purdue's economics 	<ul style="list-style-type: none"> ▪ Revision to incentive comp could better align reps to Purdue's economics
<ul style="list-style-type: none"> ▪ The revenue upside from sales re-targeting and adherence could be >\$100M 	<ul style="list-style-type: none"> ▪ A comprehensive change program for the sales force can capture significant incremental value for Purdue

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To: Boer, Peter [REDACTED]; Costa, Paulo [REDACTED]; Lewent, Judy [REDACTED]; Boer, Peter [REDACTED]; Pickett, Cecil [REDACTED]; Roncalli, Anthony [REDACTED]; Sackler Hunt, Samantha [REDACTED]; Sackler Lefcourt, Ilene [REDACTED]; Sackler, Beverly [REDACTED]; Sackler, Dame Theresa [REDACTED]; Sackler, David [REDACTED]; Sackler, Dr Kathe [REDACTED]; Sackler, Dr Raymond R [REDACTED]; Sackler, Dr Richard [REDACTED]; Sackler, Jonathan [REDACTED]; Sackler, Mortimer D.A. [REDACTED]; Snyderman, Ralph [REDACTED]; [REDACTED] sdb [REDACTED]; Gasdia, Russell [REDACTED]; [REDACTED] Lundie, David [REDACTED]; [REDACTED] Stewart, John H. (US) [REDACTED]; [REDACTED] Weinstein, Bert [REDACTED]; Cc: [REDACTED]; [REDACTED] Lowne, Jon [REDACTED]; [REDACTED] edm [REDACTED]

From: Mahony, Edward
Sent: Sat 12/21/2013 7:25:33 PM
Subject: FW: 2013 Full Year Flash Report
[Pre-Holiday Flash Report.pdf](#)

Colleagues – The following is the Flash Report on Purdue’s full year financial outlook.

NET SALES

At the November Board meeting, Purdue presented an updated 2013 net sales forecast of \$1.987 billion, as compared to the mid-year update of \$2.107 billion and the budget of \$2.410 billion.

Yesterday was our last full shipping day of the year, so we are now able to report that full year 2013 net sales are estimated to be \$2.033 billion which is \$46 million higher than the estimate presented at the November Board meeting.

OXYCONTIN PROMOTIONAL SUPPORT

Several Board members recently asked for a report of S&P investment behind

OxyContin. The following are a few highlights:

1. S&P investment behind OxyContin has increased as follows:

	\$Millions	% Sales
2012 Actual	62	3.1%
2013 Estimate	90	4.9%
2014 October Proposed Budget	108	8.3%

2. The Purdue 525 person field sales force emphasis on OxyContin in the primary sales position has increased as follows:

	% of Primary Sales Calls
2012 Actual	<25%
2013 Estimate	~ 40%
2014 October Proposed Budget	>67%

3. The E2E sales force focus/effectiveness initiatives are being implemented starting October 2013 through April 2014 are already showing positive results.

PRE-TAX PROFIT

At the November Board meeting, Purdue presented an updated 2013 pre-tax profit forecast of \$847 million as compared to the mid-year update of \$916 million and the budget of \$1,035 million. We now expect pre-tax profit to be approximately in line with the November forecast. The favorable gross margin on the higher sales above is expected to be largely offset by higher ex-USA fundings approved after the November Board meetings (\$7 million for Spain and \$30 million for the Celltrion transaction). **.

CASH AND SHORT TERM INVESTMENTS

At the end of December 2013, unrestricted cash and short term investments are projected at \$825 million --- which is \$38 million or 5% higher than forecast. This

temporary higher-than-forecast cash balance is due to timing of payments. Actual cash payments during the month included \$30.3 million for the Celltrion transaction, \$63 million of tax payments, and \$11.3 million of ex-USA funding (Japan, Spain, and Colombia).

Regards,
Ed

** Note – during year end audit, certain reserves (eg. carrying value of Dilaudid) will be reviewed and may result in a non-cash, non-rax deductible charge.

Message

From: Sackler, David A. [REDACTED]
Sent: 10/27/2014 12:50:24 PM
To: Costa, Paulo [REDACTED]
[REDACTED]
CC: Sackler, Jonathan [REDACTED]; Sackler, Dr Richard [REDACTED]
[REDACTED]; Snyderman, Ralph [REDACTED]; Boer, Peter [REDACTED]
[REDACTED]; Wikström, Åke [REDACTED]; Paulo Costa [REDACTED]
Subject: RE: (BN) S&P 500 Companies Spend Almost All Profits on Buybacks, Payouts
Attachments: Copy of Pharma Project DAS revisions.xlsx

All,

Paulo asked me to try my hand at creating an index that most closely mirrored our business. Comparing ourselves to generics is probably a bad idea, as is comparing ourselves to big pharma. You can see what I've done in the spreadsheet above. Look at the TTM results, and make sure to scroll to column AF and AG for the mean and median of our group.

My criteria was fairly simple. I eliminated anything with over \$15B of sales and anything with a gross margin <50%. That leaves:

Allergan
Alexion
Actelion
Biogen
Celgene
Endo
Ipsen
Meda
Regeneron
Shire
Teva
Valleant

The end results.

Mean gross margin 78%, median 86%. We fall smack into that range.

The spending numbers are the same mean and median for SG&A and R&D. These companies spend 28% of their sales on SG&A. Our S&P is lower than that for 2014, and a bit higher for 2015. It modulates back down to slight lower than average over the years.

These companies spend 18% of sales on R&D. We are grossly below that number.

Their after tax profit is 11% and 15% mean and median. We never dip below that, even in our trough year of 2015. Most years we are significantly higher.

On average these companies spent 721mm on external acquisitions in the past 12 months. I don't think this is a good number as Valeant and Shire bought \$4B+ worth of stuff and the rest bought very little.

Net net, I think our ratios are at least in line, if not better than that. We are underspending in R&D heavily. S&P is likely inflated because of Raman's regions, but that rolls off in the out years. Unfortunately our early stage pipeline is fairly weak, so R&D spending continues to fall heavily through 2018.

Also, when we talk about distributions, I think this is the most powerful data I've seen:

Mortimer is asking for roughly \$300mm of distributions on worldwide net sales of \$3.5B. That's 8.6% of net sales. The peer group I

selected pays 1% mean, 0% median. The highest member of the group, Ipsen, pays 5% and Teva 4%. Even if I include big pharma, who are massive cash cows paying 10%+ of their sales out, the mean and median are 4% and 1% respectively. Here are the companies that pay out more than 5% of net sales:

Amgen
AZ
BMY
Lilly
Merck
Novo-Nordisk
Novartis
Pfizer
Sanofi

Their mean R&D spending is \$6.4B per year. I realize I'm preaching to the choir, but any distribution from this point isn't supported by comparable companies. This request for distribution much more than "balance." From a comperables or business point of view, it makes no sense.

-----Original Message-----

From: Costa, Paulo [REDACTED]
Sent: Monday, October 27, 2014 9:38 AM
To: David Sackler
Cc: Sackler, Jonathan; Sackler, Dr Richard; Snyderman, Ralph; Boer, Peter; Wikström, Åke; Paulo Costa
Subject: Re: (BN) S&P 500 Companies Spend Almost All Profits on Buybacks, Payouts

Thanks David,

I'll try and reach you this afternoon. It will be helpful for you to walk me through your analysis.

Paulo

> On Oct 27, 2014, at 9:14 AM, David Sackler [REDACTED] wrote:

>

> Paulo,

>

> We just finished this exercise here at my office. This may offer some help. This has every non-Japanese pharma that's ever grown shareholder value at the rate Mortimer says we should be getting. If you want to study that part of the data I can explain how to interpret it, but what may be of most immediate help is the top of the sheet on the Financials tab. It's got TTM financials for all of the companies studies. Tony Roncalli can furnish the numbers for our worldwide business if you need them. Just ask him for what he provided me.

>

> David

>

> -----Original Message-----

> From: Costa, Paulo [REDACTED]

> Sent: Monday, October 27, 2014 9:09 AM

> To: Sackler, Jonathan

> Cc: Sackler, Dr Richard; David Sackler; Snyderman, Ralph; Boer, Peter; Wikström, Åke; Paulo Costa

> Subject: Re: (BN) S&P 500 Companies Spend Almost All Profits on Buybacks, Payouts

>

> Jon,

>

> I'd be willing to give it a try. Can you send me the background financials and the benchmark that was done?

>

> Do we have any financial projections more recent than the mid year reviews?

>

>
> Thank you
> Paulo
>
>
> On Oct 26, 2014, at 11:04 PM, Sackler, Jonathan [REDACTED] wrote:
>
> DRAFT RESPONSE
>
> FOLKS, I PREPARED THE FOLLOWING RESPONSE TO MORTIMER'S EMAIL, TAKING INTO ACCOUNT COMMENTS FROM EACH OF YOU. HOWEVER, I THINK SOMEONE OTHER THAN ME SHOULD BE TAKING THE LEAD.
>
> PAULO, AS THE BOARD MEMBER WITH THE DEEPEST PHARMA INDUSTRY EXPERIENCE, WOULD YOU BE WILLING TO CRAFT A RESPONSE? FEEL FREE TO USE MINE, MODIFY, OR COMPLETELY REPLACE IT. I WOULD SUGGEST THAT YOU ADDRESS IT TO THE FULL BOARD. ALSO, I THINK IT WOULD BE HELPFUL IF YOU BRIEF JUDY AND CECIL IN ADVANCE. IF YOU WOULD LIKE TO USE THE FINANCIAL FIGURES THAT WE DISCUSSED, I CAN PROVIDE THEM TO YOU.
>
> STUART HAS SET ASIDE TIME ON NOV. 6 FOR THE FULL BOARD TO TAKE UP THIS SUBJECT AND THE OTHER QUESTIONS UNDER DISCUSSION.
>
> DOES ANYONE WANT TO SUGGEST ANY ADDITIONS/SUBSTITUTION/DELETIONS TO MY DRAFT BELOW?
>
> When people speak of giving guidance AHEAD of budget meetings, they mean AHEAD of the process that produces the budgets, not 3 or 4 weeks before the presentation by which time most of the budgeting work has been done.
>
> The B directors reviewed end-to-end statements for every region and dug into some specific countries. With the exception of the emerging markets, profitability compares favorably to industry norms, and in some cases, very favorably (e.g., the US, Canada and Australia). The southern European markets are trailing the very profitable northern European markets, but that's to be expected: these are the old Sarget territories and were restarts. Profitability climbs when the business matures to the point of having some cash cows. Emerging markets, as a whole, are performing ahead of plan.
>
> The 5-year plans present 2015 as a trough year. Stabilizing OxyContin sales, growing Butrans and Hysingla, continued growth of Targin and Flutiform in Europe, rapid growth in the EM, growth at Rhodes, and the acquisition of one or more promotable products should produce good growth in 2016 and the following few years and nail down our position as a far more valuable growth business.
>
> There were several ideas for reducing spending. These can all be explored with management.
>
> 1. Consider giving Raman a 3-year goal that includes a higher profit level at the end of the period.
>
> 2. Look for synergies across the business, e.g., in manufacturing or IT.
>
> 3. Conduct a benchmarking exercise to dig into specific spending line items and look for anomalous figures.
>
> 4. Look carefully at our clinical trial costs to see if our use of CROs is resulting in higher costs than necessary.
>
> In summary, the unanimous view of the B Directors is that with the exception of the emerging markets, the businesses are performing well from a profitability standpoint, and the emerging markets are developing well and according to plan. There might be some opportunities to do better, but if they exist, they will have to be identified specifically. Forcing a round of across-the-board cuts (referred to as a "meat cleaver") would have a destructive effect on the performance of the business and the morale of the executive team, and is not supported by the available data.
>
> Jon Sackler
>
> One Stamford Forum | 201 Tresser Boulevard | Stamford, CT 06901 | [REDACTED] | fax [REDACTED]
> [REDACTED] | [REDACTED]
> Assistant: [REDACTED] | [REDACTED]
>
> From: Sackler, Mortimer D.A.
> Sent: Saturday, October 25, 2014 1:05 AM
> To: Sackler, Jonathan

> Subject: Re: (BN) S&P 500 Companies Spend Almost All Profits on Buybacks, Payouts

>
> Any progress? We are fast approaching the budget meetings and we really should have dealt with these items before then to minimize disruption. Especially point 2 as the whole point of that was to give guidance AHEAD of the budget meetings which is becoming close to impossible which means we are potentially driving toward a similar sub-optimal outcome to last year where the RDs are sent back to find savings rather than getting budgets approved at the meetings. Or worse, the Board doesn't agree on further cuts and nothing gets approved. We have lost three weeks since my original email...

>
> Regards,

>
> Mortimer

> On Oct 17, 2014, at 6:07 PM, "Sackler, Jonathan" [REDACTED] wrote:

> We have to go another round to turn general observations and opinions into concrete suggestions.

>
> Jon Sackler

>
> 201 Tresser Boulevard
> Stamford, CT 06901

> [REDACTED]

> fax [REDACTED]

> [REDACTED]
> Assistant: [REDACTED] | [REDACTED] | [REDACTED]

>
> From: Sackler, Mortimer D.A.

> Sent: Friday, October 17, 2014 5:28 PM

> To: Sackler, Jonathan

> Subject: Re: (BN) S&P 500 Companies Spend Almost All Profits on Buybacks, Payouts

>
> How did your meeting go? What are next steps? We need to deal with these four items ASAP as they will hold up the business otherwise.

>
> Regards,

>
> Mortimer

> On Oct 9, 2014, at 10:34 AM, "Sackler, Jonathan" [REDACTED] wrote:

> I'm pulling together the B directors to discuss these issues next week. I'll try to get some clarity from that meeting.

>
> Jon Sackler

> [REDACTED]

> On Oct 9, 2014, at 9:02, "Sackler, Mortimer D.A." [REDACTED] wrote:

> Jon,

>
> Making sure you got my email below. When are you free to discuss the follow up items to last week?

>
> Regards,

>
> Mortimer

> On Oct 6, 2014, at 6:37 PM, Sackler, Mortimer D.A. [REDACTED] wrote:

> Jon,

>
> FYI, see article below per our discussions last week. As you can see the avg S&P500 company has been distributing to shareholders (through dividends and share buybacks) close to 100% of net profit in recent years up from their historical average of 80%...

>
> Let's speak later this week about how to best follow up on the three items you listed after last week's meetings:

>
> 1. How best we can explore all strategic options available to the business together in order to determine the best unified path forward

for BOTH families to grow shareholder value.

> 2. How we should indicate to our Regional Directors that they should be looking to bring down our global operating expenses next year to keep them in line as a percentage of our global sales.

> 3. Distributions for this year and ideally agreeing them for next year as well so we aren't dealing with this every quarter.

>

> And I would add a fourth item which is:

>

> 4. The proper level of debt we should have on the operating business (aside from financing for a deal) and whether we can free up working capital by maybe charging managers for its use rather than giving them a free ride on it. I really feel \$1 billion of working capital is just too much for our business (as is \$890 million net of the Medicaid rebate reserve). Our Shareholder Equity has been substantially increasing every year and the return on it decreasing.

>

> Regards,

>

> Mortimer

>

> Begin forwarded message:

> From: "Sackler, Mortimer D.A." [REDACTED]

> Date: October 6, 2014 at 9:19:11 AM GMT+1

> To: "Sackler, Mortimer D.A." [REDACTED]

> Subject: (BN) S&P 500 Companies Spend Almost All Profits on Buybacks, Payouts

>

> S&P 500 Companies Spend Almost All Profits on Buybacks, Payouts<bbg://news/stories/NCZLNH6K50XS>

> Monday, October 06, 2014 05:00 AM

> by Lu Wang and Callie Bost

>

> Oct. 6 (Bloomberg) -- Companies in the Standard & Poor's 500 Index really love their shareholders. Maybe too much.

>

> They're poised to spend \$914 billion on share buybacks and dividends this year, or about 95 percent of earnings, data compiled by Bloomberg and S&P Dow Jones Indices show. Money returned to stock owners exceeded profits in the first quarter and may again in the third. The proportion of cash flow used for repurchases has almost doubled over the last decade while it's slipped for capital investments, according to Jonathan Glionna, head of U.S. equity strategy research at Barclays Plc.

>

> Buybacks have helped fuel one of the strongest rallies of the past 50 years as stocks with the most repurchases gained more than 300 percent since March 2009. Now, with returns slowing, investors say executives risk snuffing out the bull market unless they start plowing money into their businesses.

>

> "You can only go so far with financial engineering before you actually have to have a business with real growth," Chris Bouffard, chief investment officer who oversees \$9 billion at Mutual Fund Store in Overland Park, Kansas, said by phone on Oct. 2. "Companies have done about all that they can in terms of maximizing the ability to do those buybacks."

>

> S&P 500 constituents will probably say earnings<bbg://news/stories/ncve4v6tz01u> rose 4.9 percent in the third quarter when they begin reporting results this week, according to more than 10,000 analyst estimates compiled by Bloomberg. Alcoa Inc., Yum! Brands Inc. and Monsanto Co. are among nine companies scheduled to announce financial details.

>

> Buyback Index

>

> U.S. equities retreated last week, with the S&P 500 losing 0.8 percent to 1,967.9. The S&P 500 Buyback Index fell 0.7 percent. The gauge is up 7.5 percent this year, compared with the 6.5 percent advance in the S&P 500, after beating it by an average of 9.5 percentage points every year since 2009.

>

> While the ratio to earnings shows how buybacks and dividends compare to past economic expansions, it doesn't indicate companies are struggling to fund them. Five years of profit growth have left S&P 500 constituents with \$3.59 trillion in cash and marketable securities and they've raised almost \$1.28 trillion in 2014 through bond sales, headed for a record.

>

> "Buybacks are something corporations can take control of and at low borrowing costs, they're a viable option," Randy Bateman, chief investment officer of Huntington Asset Advisors, which manages about \$2.8 billion, said by phone on Oct. 1. At the same time, he said, "If management can't unearth future opportunities for growth, as a shareholder, I lose confidence."

>

> Earnings Barrier

>

> S&P 500 companies will spend \$565 billion on repurchases this year and raise dividends by 12 percent to \$349 billion, based on

estimates by Howard Silverblatt, an index analyst at S&P. Profits would reach \$964 billion should the 8 percent growth forecast by analysts tracked by Bloomberg come true.

>
> Profits climbed to about \$230 billion over the last three months, based on analyst forecasts. That compares with total buybacks and dividends of about \$235 billion, assuming repurchases estimated by Silverblatt are evenly divided between the third and fourth quarters. Cash returned to shareholders exceeded profits in the first quarter for the first time since 2009, data compiled by Bloomberg and S&P show.

>
> "We're at a point you sort of question whether they can continue to rise from here," Glionna said in a phone interview on Oct. 1 from New York. "This kind of 100 percent earnings is a barrier. It can bounce around here and there, but it doesn't go much above that."

>
> Aging Plants

>
> Excluding the recession years 2001 and 2008, dividends and stock buybacks have represented, on average, 85 percent of corporate earnings since 1998. The last time payouts exceeded income in 2007, the buyback index fell 4.7 percent, compared with a 3.5 percent gain in the S&P 500. Equities peaked that October before losing more than half their value.

>
> CEOs have increased the proportion of cash flow allocated to stock buybacks to more than 30 percent, almost double where it was in 2002, data from Barclays show. During the same period, the portion used for capital spending has fallen to about 40 percent from more than 50 percent.

>
> The reluctance to raise capital investment has left companies with the oldest plants and equipment in almost 60 years. The average age of fixed assets reached 22 years in 2013, the highest level since 1956, according to annual data compiled by the Commerce Department.

>
> 'C Suite'

>
> Stock repurchases worth almost \$2 trillion have helped buoy the bull market since March 2009. The S&P 500 has gone without a 10 percent decline for three years and is up 191 percent amid a 5 1/2-year bull run. Even as sales were stuck at an average growth rate of 2.6 percent a quarter in the past two years, per-share earnings expanded more than twice as fast, 6.1 percent, data compiled by Bloomberg show.

>
> During the first half of 2014, more than one-fifth of S&P 500 companies cut their share count by at least 4 percent in the first half, Silverblatt estimated.

>
> "Buybacks have become sort of the low-risk medicine in the C suite," David Lafferty, the chief market strategist for Natixis Global Asset Management in Boston, said by phone on Oct. 2. His firm manages about \$930 billion. "The reality is capital expenditure comes with risk, significant amount of risk, especially in a slow-growth world. Buybacks offer a lot of flexibility."

>
> FedEx, Juniper

>
> FedEx Corp. added 15 cents, or 7 percent, to its EPS in the latest quarter through buybacks. The Memphis, Tennessee-based shipping company authorized a repurchase program of as many as 15 million shares last month while keeping its capital spending for the fiscal year at \$4.2 billion.

>
> Juniper Networks Inc., bowing to pressure by activist hedge funds Elliott Management Corp. and Jana Partners LLC, announced plans in February to return at least \$3 billion to shareholders. In August, the Sunnyvale, California-based maker of networking equipment said it will complete \$2 billion of buybacks by the end of this year, achieving the target earlier than expected.

>
> The company had "an unusually high" cash flow of \$425 million during the second quarter, Chief Financial Officer Robyn Denholm said in a conference call on Aug. 12. "We obviously have accelerated our buyback not just because of the cash results, but also because of the opportunistic nature of the capital returns that we're doing at the moment."

>
> Juniper Networks offered buybacks equivalent to 10.9 percent of its stock price over the 12 months through June, more than double its earnings yield of 3.96 percent, data compiled by Bloomberg and S&P show.

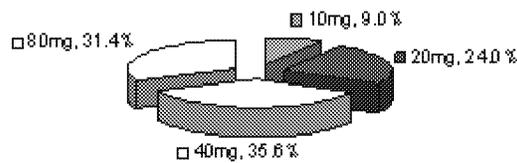
>
> "It's going to be harder and harder to justify using that capital to buy back stocks at record highs," Tim Courtney, who helps oversee about \$1.3 billion as chief investment officer of Exencial Wealth Advisors, said in a phone interview from Oklahoma City on Oct. 1. "Money has to be diverted to other places to keep operations going. The point of concern is where the future growth is going to come from."

>

>
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>
> --With assistance from David Wilson and Wendy Soong in New York.
>
>
> To contact the reporters on this story:
> Lu Wang in New York at [REDACTED] or [REDACTED]
> Callie Bost in New York at [REDACTED] or [REDACTED]
> To contact the editors responsible for this story:
> Lynn Thomasson at [REDACTED] or
> [REDACTED]
> Chris Nagi, Jeff Sutherland
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> Christopher Bouffard (NSE PERSON:?17022431<GO>) David Wilson (NSE PERSON:?1708428<GO>) Laura Zelenko (NSE
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PERSON:?2308469<GO>) Wendy Soong (NSE PERSON:?3772132<GO>) David Chalupnik (NSE PERSON:?3788197<GO>) Lu
Wang (NSE PERSON:?3866683<GO>) Randy Bateman (NSE PERSON:?4426271<GO>) Howard Silverblatt (NSE
PERSON:?5200448<GO>) Christopher Nagi (NSE PERSON:?5837607<GO>) David Kahn (NSE PERSON:?7285404<GO>)
>
>
> Click here to view story in Bloomberg<bbg://news/stories/NCZLNH6K50XS>
>
>
> Regards,
>
> Mortimer
> <Pharma Project 10.22.2014.xlsx>

OxyContin Rx Distribution by Dosage Strength

Current Week - November 2, 2007



1. For the week ending November 2nd, prescriptions for OxyContin were 42,123, up 1.6% from 41,455 the previous week. Likewise, OxyContin share increased to 30.9% from 30.7% last week.

- The 80 mg dosage strength showed the greatest increase (+5.0%).

	OxyContin Rx by Dosage Strength				
	Last Week		Current Week		Percent Change
	TRX	%	TRX	%	
10mg	3,780	9.1%	3,791	9.0%	0.3%
20mg	10,097	24.4%	10,096	24.0%	0.0%
40mg	14,965	36.1%	14,994	35.6%	0.2%
80mg	12,613	30.4%	13,241	31.4%	5.0%
Total	41,455	100.0%	42,123	100.0%	1.6%

2. OxyContin share by dosage strength over the last eight weeks is noted below. The current week share (30.9%) is above the 8-week average (30.7%)

**OxyContin Share of Oxycodone ER Prescriptions
By Dosage Strength**

					All
	10mg	20mg	40mg	80mg	Strengths
14-Sep	14.7%	22.8%	36.9%	49.7%	30.4%
21-Sep	15.0%	22.8%	37.2%	50.9%	30.9%
28-Sep	14.6%	22.8%	36.9%	49.4%	30.3%
5-Oct	14.5%	23.0%	37.4%	50.7%	30.9%
12-Oct	14.4%	22.5%	37.6%	50.4%	30.7%
19-Oct	14.4%	23.0%	38.0%	51.7%	31.3%
24-Oct	14.6%	23.0%	37.3%	50.2%	30.7%
2-Nov	14.5%	22.9%	37.0%	51.5%	30.9%
8 Week Average	14.6%	22.8%	37.3%	50.6%	30.7%

3. Prescriptions for all oxycodone ER products are shown below.

Weekending	OxyContin	Endo	Watson	Teva	Dava / Impax	Global	Repackagers	Total Generics	Total Oxycodone-ER	OxyContin Share of Total Oxycodone ER
September 14	41,196	1,949	3,948	78,566	9,851	9	0	94,323	135,519	30.4%
September 21	41,818	1,875	3,475	78,511	9,841	15	1	93,718	135,536	30.9%
September 28	41,484	1,694	3,332	80,731	9,531	13	5	95,306	136,790	30.3%
October 05	42,890	1,850	3,200	81,431	9,457	9	2	95,949	138,839	30.9%
October 12	41,449	1,830	2,979	79,716	8,973	3	0	93,501	134,950	30.7%
October 19	42,575	1,937	2,775	79,964	8,937	17	2	93,632	136,207	31.3%
October 26	41,455	2,166	2,640	80,079	8,707	7	2	93,601	135,056	30.7%
November 02	42,123	2,126	2,554	81,010	8,671	8	3	94,372	136,495	30.9%

	OxyContin	Endo	Watson	Teva	Dava / Impax	Global	Repackagers	Total Generics	
Current Week's Distribution									
% of Total Oxycodone-ER	30.9%	1.6%	1.9%	59.4%	6.4%	0.0%	0.0%	69.1%	100.0%
% of Oxycodone-ER Generics		2.3%	2.7%	85.8%	9.2%	0.0%	0.0%	100.0%	
% of 10, 20, 40 mg Only	26.1%	1.9%	2.0%	83.2%	6.8%	0.0%	0.0%		
% of 80 mg Only	51.5%	0.3%	1.1%	42.6%	4.5%	0.0%	0.0%		

- Total oxycodone ER prescriptions (136,495) were up slightly this week (1.1%)
- Teva, with 81,010 Rx's, presently has 59.4% share of total oxycodone ER, and 85.8% share of generics.

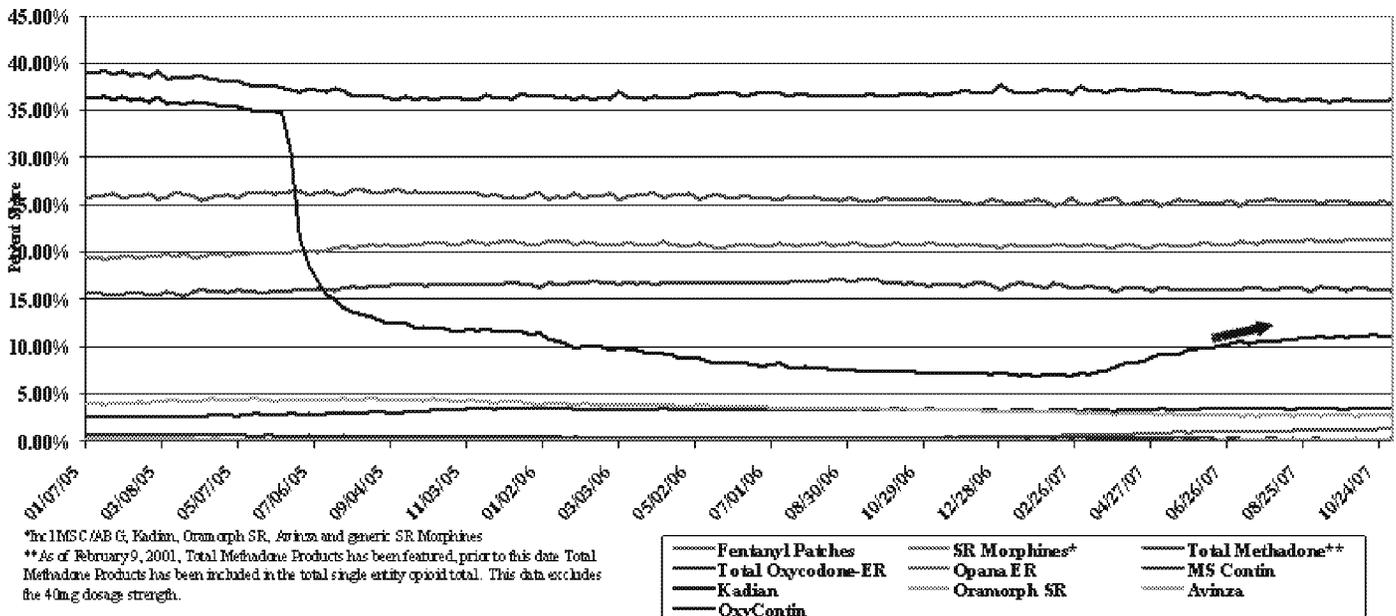
4. In the long-acting opioid category (oxycodone ER, oxymorphone ER, fentanyl patch, SR morphine, and methadone products), OxyContin Rx share has held steady at 11% for the last few months.

- Opana ER, with 5,235 Rx's, showed a 5.7% increase over last week. This is a new weekly high for Opana ER.

	OxyContin	Oxycodone-ER Generics	Opana ER	Fentanyl Patches	SR Morphines	Methadone	Total Long-Acting
19-Oct	42,575	93,632	4,905	95,177	80,703	60,635	377,627
26-Oct	41,455	93,601	4,954	95,216	80,713	60,236	376,175
2-Nov	42,123	94,372	5,235	95,329	80,440	60,230	377,729

Current Week Share	11.2%	25.0%	1.4%	25.2%	21.3%	15.9%	100.0%
--------------------	-------	-------	------	-------	-------	-------	--------

Oxycodone ER, Fentanyl Patch, Methadone, Oxymorphone ER and SR Morphine (MS Contin, Avinza, Kadian, Oramorph SR and Generic Morphine SR) Products Percent Share of The Long-Acting Opioid Category Prescriptions



*The IMS C/AB G, Kadian, Oramorph SR, Avinza and generic SR Morphines
 **As of February 9, 2001, Total Methadone Products has been featured prior to this date. Total Methadone Products has been included in the total single entity opioid total. This data excludes the 40mg dosage strength.

----- Fentanyl Patches	----- SR Morphines**	----- Total Methadone**
----- Total Oxycodone-ER	----- Opana ER	----- MS Contin
----- Kadian	----- Oramorph SR	----- Avinza
----- OxyContin		

----- End of Forwarded Message

To: Mahony, Edward [REDACTED];
Stewart, John H. (US) [REDACTED];

From: Gasdia, Russell
Sent: Thur 2/14/2008 9:07:32 AM
Subject: RE: OxyContin trade inventory stoichiometry.xls

Ed

Trade inventory does take into account the new strengths and OTR. Kim has that factored into the calculations.

Also, others may want to weigh in on valuing the higher strengths versus lower strengths. With the rep bonus plan we have been very careful to not over incentivize reps to promote the higher strengths over the lower strengths. All strengths are important to the overall success of the brand. Also, I would think that the further people are from impacting the demand, the less of an incentive plan this becomes...I do not have a problem either way. Generating appropriate demand is my department's responsibility.

Russ

From: Mahony, Edward
Sent: Wednesday, February 13, 2008 8:33 PM
To: Stewart, John H. (US); [REDACTED]
Cc: Gasdia, Russell
Subject: FW: OxyContin trade inventory stoichiometry.xls

The idea of using scripts vs. factory sales is interesting. Russ and I will get the data and talk to you tomorrow.

Best Regards,
Ed Mahony

Redacted

From: Sackler, Dr Richard
Sent: Wednesday, February 13, 2008 7:29 PM
To: Stewart, John H. (US); Mahony, Edward; [REDACTED] Pearl Meyer [REDACTED];
Joseph A. Sorrentino [REDACTED]; Sackler, Dr Richard; Sackler, Jonathan; Sackler,
Mortimer JR
Subject: OxyContin trade inventory stoichiometry.xls

<< File: OxyContin trade inventory stoichiometry.xls >>

This spread sheet demonstrates the enormous difficulty in forecasting 2008 shipments only allowing for inventory shifts in the trade.

We haven't layered on this the impact of the new strengths and OTR.

General performance measure for 2008 --

Demand performance is always slippery. But 2008 presents unique challenges that would cause enormous problems for any analyst.

1. Ending of generic shipments and the impact of this on demand by the trade.

2. Introduction of 3 new OxyContin tablets strengths

3. Transition to OTR and the impact this will have on inventory levels both temporary and long term.

Since there are so many complexities in forecasting demand in 2008, let's not tie our performance measure to such an inexact forecast.

Solution:

Let's measure our performance by Rx's by strength, giving higher measures to higher strengths an especially the new strengths.

Rx's could also be measured by *original* and OTR product, as we want that to find tremendous response.

John and Ed,

Please bring the detailed Rx projections by strength and by month in Excel so that we can discuss how to do this if we agree that this is the right approach.

Message

From: Sackler, Dr Richard [REDACTED]
Sent: 3/9/2008 11:11:53 PM
To: Stewart, John H. (US) [REDACTED]; Sackler, Dr Kathe
[REDACTED]; Sackler, Dr Richard
[REDACTED]; Sackler, Jonathan
[REDACTED]; Sackler, Mortimer JR

Please give me support on these matters tomorrow. I really don't like the forecast at this point. I think it is a typical low ball number that people expect to beat and be complimented for. I want the organization to stretch, not idle as so much of it has for a long time.

Richard S. Sackler, M.D.

Redacted

*

-----Original Message-----

From: Sackler, Dr Richard
Sent: Sunday, March 09, 2008 11:10 PM
To: Mahony, Edward; Stewart, John H. (US)
Cc: Gasdia, Russell; [REDACTED]
Subject: RE: Russ

I'm sorry, but I don't agree with you, Ed.

I think that your arguments for calling a reversal of a trend are interesting, but not supported by the data at hand.

I wonder how much this discussion is driven by the use of these numbers for compensation, and whether we should disconnect the forecast from the numbers somewhat declaring, for example, a 95% of attainment as equivalent to 100%. Does that make you more comfortable?

Richard S. Sackler, M.D.

Redacted

*

-----Original Message-----

From: Gasdia, Russell
Sent: Sunday, March 09, 2008 8:00 PM
To: Mahony, Edward; Sackler, Dr Richard; Stewart, John H. (US); [REDACTED]
Subject: Re: Russ

I agree with Ed's observations in this email and his other as well.

Russ

----- Original Message -----

From: Mahony, Edward
To: Sackler, Dr Richard; Gasdia, Russell; Stewart, John H. (US); [REDACTED]
Sent: Sun Mar 09 18:02:05 2008
Subject: RE: Russ

Per your request this is my take:

1. See my separate email timed 4:27 today on 2008. Without repeating the long text, subject to possible adjustments for trade inventory and generics, I think that the forecast is a good stretch target
2. I studied the trend lines and for 2008 only, and when I cut through all of it, I come to the simple conclusions:
 - a. 2007 was a year in which Medicare D was baked into the numbers
 - b. 2007 benefited from all the payor factors that improve demand in a generic market.
 - c. In 2008 the payor factors that work against a brand are being put back in place

3. So ... John's approach of keeping scripts at the 8.14 million 2007 level for the total oxycodone ER market seems reasonable.
4. Your suggestion below that maybe a better target is a 3 to 7% growth is better translates into \$78 to \$182 million more gross sales.
5. We could use the PLUS \$182 million as the HIGH side sales target OR say rounding to \$200 million (a nice round 10%)

I think that it would be best to close the 2008 forecast as proposed BUT RATHER TURN TO 2009. Changes that we make now could have an impact on 2009!!!!!!

Ed

From: Sackler, Dr Richard
Sent: Sunday, March 09, 2008 5:19 PM
To: Gasdia, Russell; Stewart, John H. (US); Mahony, Edward
Subject: Russ

Here is the work as of this morning from David.

Seems to me that our forecast for 2008 is overly conservative. Do you see it differently?

Ed,

The working policy is for us to not leave a cushion in the plan, but to present our best estimate of what a well-run business can accomplish. Not higher than we believe, but not lower either. That is the working policy. I know that it may make the covenants a bit harder to negotiate, but we believe that this is the better course of action.

I'd like us to gather this week (you are away and can be on the phone) to go through this with MDAS and a few other Board members and decide on the conceptual outline.

Be aware that the 2008 number may go up by 3-7%. That is a rough guess, but it sets a higher baseline if that happens. Further, the "conservative" thinking that in our high case shows our brand deteriorating seems disconnected with the reality that new entrants expand the franchise more than they cannibalize it. And what will those entrants be? Opana is going off exclusivity, Remoxy is crippled, and where are the others? Surely they'll come, but I don't see it yet.

See graph below.

Ed, please amplify on the forecast per the following.

It is still a few days away, but I think that I've found a really significant disconnect in the old plans that make them dimensionally low. If this is the case, then I hope you agree that we should change our forecast for 2008 and probably 2009, and take a fresh look at 2010-2012. There could be a lot of value here.

Here is my first finding working with the corrected data that David Rosen sent to me today.

Here are the oxy ER kgs/month in the market according to David's calculation. You see three basic trends marked in the data. The period pre-Medicare insurance is in red; the post Medicare insurance boost, and the forecast for the market in 2008.

I haven't formed a view yet, but the yellow (the tentative budget) doesn't look right to me. Forecasting a reversal of a very long trend seems unusual and harsh and not supported by the information Russ gave to me about:

1. number of covered lives (now over 90% for new patients and at least 96% for all existing oxycodone users).
2. Rx store refusal rates which are lower for OxyContin than other Rx drugs.
3. General good reception in the trade and with doctors about our brand.

What do you make of this, Ed and John?

Richard S. Sackler, M.D.

Redacted

*

Message

From: Sackler, Dr Richard [REDACTED]
Sent: 3/18/2009 10:18:27 PM
To: Stewart, John H. (US) [REDACTED]
CC: Sackler, Dr Kathe [REDACTED]
Subject: RE: Oxycodone ER share
Attachments: image001.gif

The big growth in share has been in morphine and methadone. Yes, they are often inexpensive products. But all the more reason for us to intercept their development because they aren't heavily promoted.

We have been on the defensive since 2002, but there seems to be little reason for us to be there anymore.

Don't you agree that we can arrest this decline and reverse it?

Richard S. Sackler, M.D.

Redacted

From: Stewart, John H. (US)
Sent: Wednesday, March 18, 2009 9:06 PM
To: Sackler, Dr Richard
Cc: Sackler, Dr Kathe
Subject: RE: Oxycodone ER share

Richard

We will have a full review of the opioid market and growth/share changes presented at the April Board Meeting – as part of the Quarterly Business Conditions/Performance Reviews being established.

While share is an important consideration, absolute growth vs competitors (and vs the total market) as measured by a variety of parameters (\$, kg, etc.) is equally telling - as is of course performance against objectives. Given that the products that are gaining share don't seem to be those that are heavily promoted, I suspect that a share gaining strategy could well be a profit diminishing one too – but we will know more from the IMS Rebate Analysis that should also be in final readiness by the April Meeting

As we move forward and launch BuTrans and Targin – the key consideration is more likely to be Purdue's share of the \$ market (as opposed to Rx's) since that actually better reflects our ability to drive value and profitability.

John

From: Sackler, Dr Richard
Sent: Tuesday, March 17, 2009 8:49 PM

To: Stewart, John H. (US)
Subject: RE: Oxycodone ER share

I don't take any comfort that 2002-5 was worse. That was in the midst of the big attack on us.

I still would like us to focus on reversing this in 2009 and making some progress. After all, this is the period that there will be generics available, to some extent. It is clearly an important goal.

Do you agree?

Richard S. Sackler, M.D.

Redacted

From: Stewart, John H. (US)
Sent: Tuesday, March 17, 2009 2:20 PM
To: Sackler, Dr Richard
Subject: RE: Oxycodone ER share

Richard

I have been in meetings all day, with another (General Counsel Candidate interview) starting in just a few minutes.

I'll call later this afternoon, but take a look at the share changes back in the 2002 – 2005 period – they were greater than we are seeing today. It appears that the only years where oxycodone ER's share didn't decline were those of the greatest supply of generic formulations.

John

From: Sackler, Dr Richard
Sent: Tuesday, March 17, 2009 12:20 PM
To: Stewart, John H. (US)
Cc: Mahony, Edward; Peter Boer; Sackler Lefcourt, Ilene; Sackler, David A.; Sackler, Dr Kathe; Sackler, Dr Mortimer; Sackler, Dr Raymond R; Sackler, Dr Richard; Sackler, Jonathan; Sackler, Mortimer JR; Sackler, Theresa
Subject: FW: Oxycodone ER share
Importance: High

John,
I'm troubled by our continued losing of position to other opioids, especially morphine and methadone. These should be easy ones to compete against and difficult for people to argue for.

Can we set 2009 a specific goal of turning this decline around???

Richard S. Sackler, M.D.

Redacted

From: Rosen, David
Sent: Tuesday, March 17, 2009 10:09 AM
To: Sackler, Dr Richard
Cc: Innaurato, Mike; Gasdia, Russell; Stewart, John H. (US)
Subject: FW: Oxycodone ER share

Dr. Richard –

Attached are the data you requested.

-David

From: Barmore, Robert
Sent: Tuesday, March 17, 2009 10:07 AM
To: Rosen, David
Subject: RE: Oxycodone ER share

These are the data I used. It's by molecule only. I can get more detailed as needed.

Rob

Redacted

From: Rosen, David
Sent: Tuesday, March 17, 2009 9:39 AM
To: Barmore, Robert
Subject: FW: Oxycodone ER share

Rob - can you send me the underlying data for the share graph used in your Word presentation?

Thanks,
D

From: Sackler, Dr Richard
Sent: Tuesday, March 17, 2009 9:37 AM
To: Rosen, David
Cc: Gasdia, Russell; Innaurato, Mike; Stewart, John H. (US)
Subject: RE: Oxycodone ER share

Please send the underlying data.
This is not good.

Richard S. Sackler, M.D.

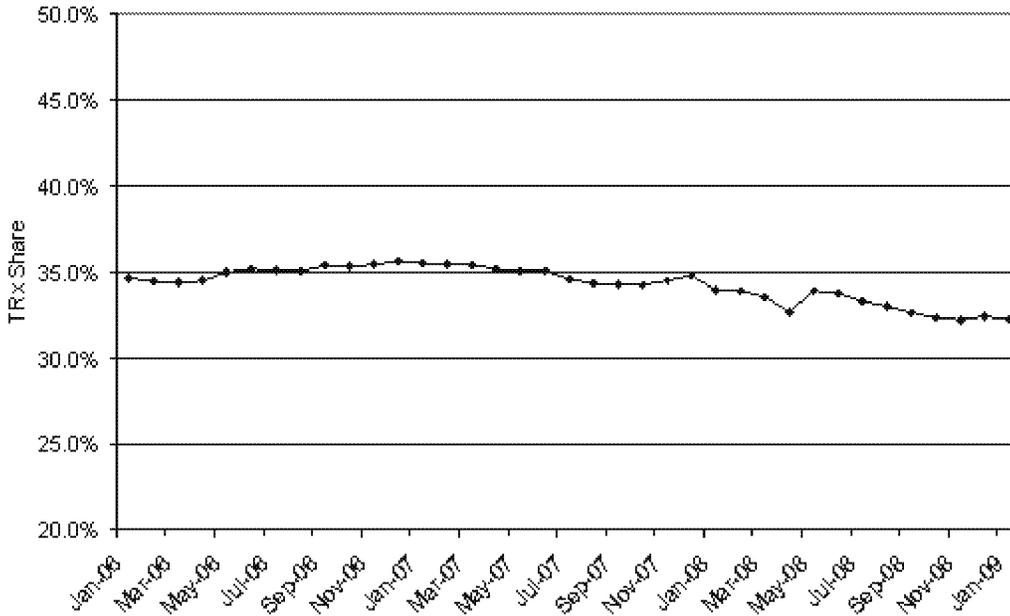
Redacted

From: Rosen, David
Sent: Tuesday, March 17, 2009 8:46 AM
To: Sackler, Dr Richard
Cc: Gasdia, Russell; Innaurato, Mike
Subject: Oxycodone ER share

Dr. Richard -

As per your request, our share of the long acting SEO category has been declining for quite some time as depicted in the graph below:

Oxycodone-ER TRx Share of the LA SEO Market



The reason we have continued robust growth up until this point is that the LA SEO category continued to expand fairly rapidly. Without that expansion, our growth flattens or becomes negative.

-David

Message

From: Sackler, Dr Richard [REDACTED]
Sent: 10/28/2009 12:28:21 PM
To: Sackler, Dr Richard [REDACTED]
Subject: Performance 4.doc
Attachments: Performance 4.doc

Here are some observations:

1. We fell under our sales and profit plan by huge margins.

Action — Detailed analysis of pluses and minuses both to OxyContin tablets and to OER total business, Rx and Kg

2. The Ad. Comm was favorable and a great reversal from May 2008. This appeared to be the result of some positive changes in the attitudes of FDA officers¹ as well as a vastly better preparation. Assuming that we obtain the approval we hope for at the time we expect it (Dec 2009) we will have a good outcome.
3. Ryzolt was a huge flop after we overcommitted to promotion. This was in the face of a negative view of McKinsey; we didn't use it effectively to give ourselves options in discontinuing the promotional spend. We are still devoting most of our promotional spend to try and sell it but to no avail.

Action — A detailed in-depth post mortem without fear or favor. A good analysis doesn't substitute for a success, but it gives us learning to take forward.

4. We were told by JHS and RG that Ryzolt would cause us to sell more oxycodone ExtRel Rx's. This is an actionable part of the Ryzolt mess. It is clear that the total sales are the result of successful patent strategy and earlier settlements
5. The Senokot recall was a negative. In hindsight, it was largely preventable as we were dependent on an unreliable supply chain.
6. Corp Dev did bring home the Intermezzo deal. The value and significance of this won't be known until we get approval on time (Nov 2009) and the right label this is a favorable event for Jim Dolan.
7. The successful negotiation with Grunenthal marks a positive development that is worthy of note.
8. We lost the Nektar deal. This is a negative because ultimately we were very enthusiastic about the

1

prospect. In 2008 – before the phase 2 data – we could have had it at a much lower cost than it ultimately attained and it would have been unsanctioned and uncontested a year ago.

Management misjudged the opportunity and its value upon success in phase 2, not Corp Development.

9. I know of no major accomplishments in R&D but the latest HTR failure is a negative this year. This can be viewed a modest positive, since it presumably means projects are on track and risks have been reduced. Even a few failures would not be too bad. It's normal, and even desirable, to drop a few lagging projects so the portfolio can be revitalized. Perhaps there hasn't been enough activity in 2009. But HTR was not a good decision and there has been no initiative in driving for opportunities that would be or lead to transformative products.

10.

Redacted

11. Ex Butrans, Purdue is beginning to look like a cash cow focused on life cycle extension for oxycodone ER. I would like a larger element of vision on the part of top Management.
12. The search for an R&D head did not turn up a leader that impressed the search committee, leaving us behind our goals in energizing this function.

Message

From: Sackler, Dr Richard [REDACTED]
Sent: 1/8/2010 2:07:54 PM
To: Stewart, John H. (US) [REDACTED]
BCC: Stewart, John H. (US) [REDACTED]
Subject: RE: 2010 Budget w/att.

I look forward to reviewing both the compensation and also the budget. I just don't see why with all the opportunities many, but not all of which we are trying to exploit, we can't lift our Rx's and our kg 8%. 2009 was affected by the economy (all agreed) but 2010 is likely to be a much stronger year in terms of the economy, so we have this additional lift even before we get the effects of the programs and add additional programs.

Richard S. Sackler, M.D.

Redacted

From: Stewart, John H. (US)
Sent: Thursday, January 07, 2010 7:41 PM
To: Sackler, Dr Richard
Subject: FW: 2010 Budget w/att.

Richard

Here is the 2010 Budget – which has been revised to reflect the latest information on [REDACTED] reduced competitive activity, and the impact of the new (OTR) formulation. The revised total for gross sales is \$3.054 billion – and this represents about 1.5% growth over 2009. Net sales growth will be about 2.4%, due to improvements in our rebate structure.

I know that you have been advocating for an increase in the top line, but in looking at the recent OER prescription growth trends and knowing the overall dynamics of the market OxyContin competes in – I just can't see a way of the prescription growth tracking to a level substantially higher than the 3% on which this budget is based. I believe that the objective of increasing the budget to an assumed 8% growth rate is to stimulate the company to achieve those higher sales, which I too want to pursue. However, increasing the assumed prescription growth rate isn't the way to do it, since it will be obvious to many that the 8% is simply an arbitrary figure – and it will be interpreted as an imposition as opposed to an action that will stimulate the type of business building behaviors we want to encourage.

I have been working with David, Ed and Doug Van Tornhout this week on changes to the nature of the bonus calculation (net sales component) in the Business Success Scorecard – in a way that will stimulate the staff to reach for overbudget sales performance, and will review these with you when we are both in the office next week. I hope you will agree that it is the better route to drive increased performance. Wednesday works best for me, since I'll be I at the National Sales Meeting on Monday and Tuesday.

Just to be clear, I want to drive the same performance as you - but want to use an approach that is going to be seen as a positive by the many staff who will actually be doing the "driving".

JS

From: Mahony, Edward
Sent: Wednesday, January 06, 2010 4:14 PM
To: Stewart, John H. (US)
Cc: [REDACTED]
Subject: FW: 2010 Budget w/att.

John,

As discussed, the Purdue Board approved the 2010 budget subject to certain changes and a review of the sales target. The attached shows a revised 2010 budget to reflect those changes.

The change in pretax profit includes:

	(\$ million)
Redacted	
Increase in OxyContin sales of \$56 mm, due to an expected delay in marketing of Covidien's Exalgo and Endo's recent significant reduction in S&P in support of Opana ER.	41.2
Medicaid rebates decrease (i.e. prices increase) assuming Purdue achieves full benefit of lower rebate rates on OxyContin new formulation.	39.0
Remove cost of a \$200 million BOA credit line, as it is not yet approved	4.2
Other	(3.2)
Pre-tax earnings increase	+88

The following is a summary of the changes:

(\$ million)	2010 original Budget	2010 revised Budget	Change
Gross Sales	3,035	3,054	+ 19
Net Sales	2,450	2,498	+ 48
Operating Margin	1,491	1,577	+ 86
Pre-Tax Earnings	1,378	1,466	+ 88
Non-Tax Distributions	739	783	+ 44

Per our discussion, we will proceed to lock down this budget, load budgets into SAP and distribute 2010 budgets to department heads.

All the best,

Ed