Building a Sustainable Utah-based Business Infrastructure

The Ultimate "BHAG"

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Key Issue

What financial and cultural characteristics help create a sustainable Utah-based/Utah-managed business?

→ 10 Value Maximization/Sustainability Concepts

VM/S Concept 1

Invest your life and financial assets only in a niche with clear sustainable competitive advantage

VM/S Concept 2

Identify as an explicit part of business model a desire to avoid an early financial exit—building a franchise, not a financial play

VM/S Concept 3

Hire team members whose internalized goal is to build a fundamental, enduring value generator in Utah, not a short term financial exit

VM/S Concept 4

Vest “BHAG employees” committed to long term value creation with long term equity incentives—reward an empowered team that disdains politicization and demands product-focused results.

“Culture matters”

VM/S Concept 5

Prior to every funding round, identify the key value creation events your team must attain to raise funds for the <u>subsequent</u> funding round

VM/S Concept 6

Select visionary financial equity partners who share your long term commitment to creating exceptional and sustainable institutions—not simply generating short term financial returns

"Be cautious of those who run OPM"

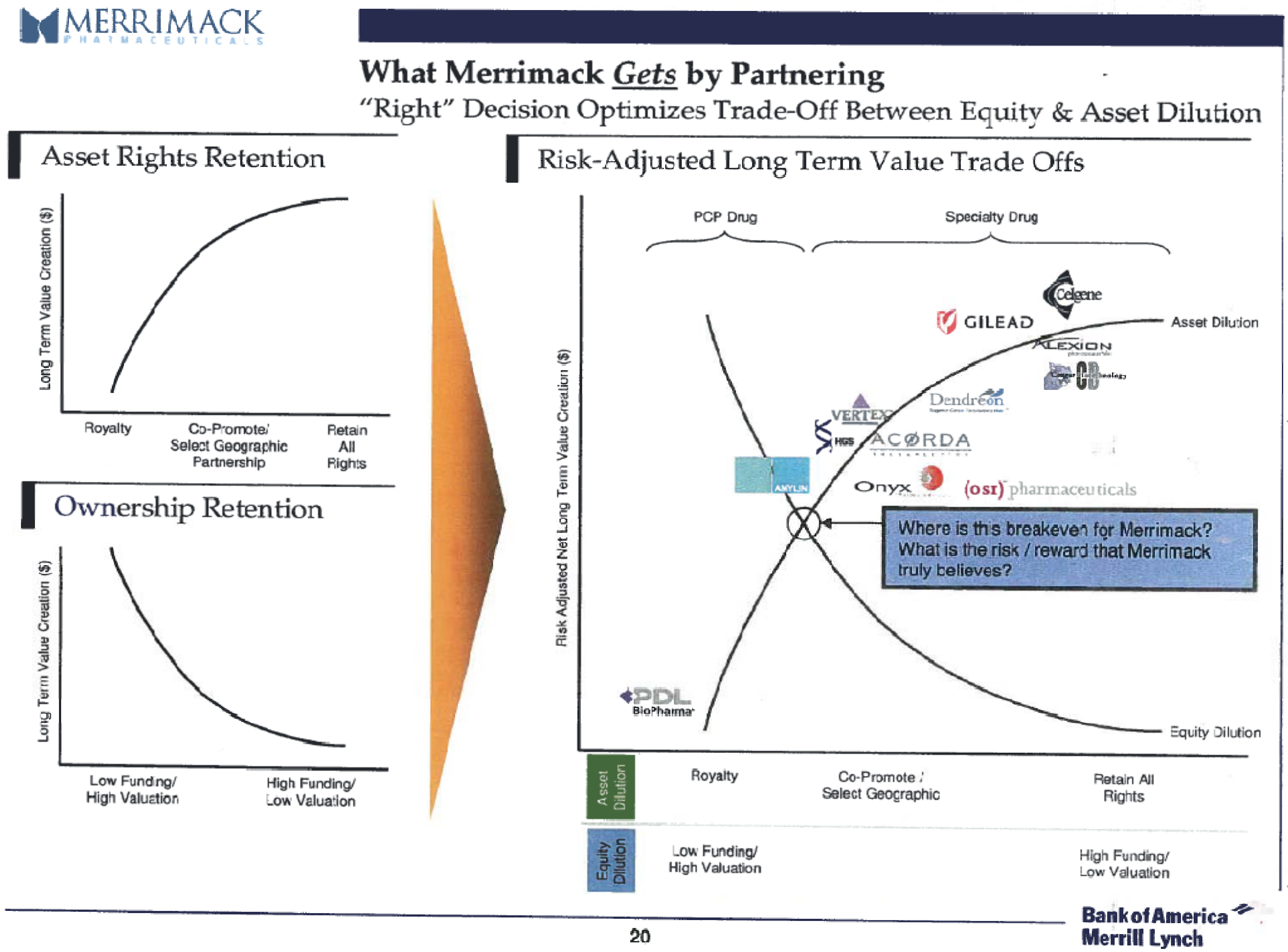
VM/S Concept 7

As part of each funding round, identify and cultivate visionary investors who will be required to fund the subsequent funding round—“pre-position” your value creation vision

VM/S Concept 8

Carefully optimize the long term tradeoffs between partnering asset dilution and financial equity dilution—beware of "validating partnerships"

8 (cont'd)


MERRIMACK PHARMACEUTICALS
What Merrimack Gets by Partnering
"Right" Decision Optimizes Trade-Off Between Equity & Asset Dilution
Asset Rights Retention
Long Term Value Creation ($)
Royalty
Co-Promote/ Select Geographic Partnership
Retain All Rights
Ownership Retention
Long Term Value Creation ($)
Low Funding/ High Valuation
High Funding/ Low Valuation
Risk-Adjusted Long Term Value Trade Offs
Risk Adjusted Net Long Term Value Creation ($)
PCP Drug
Specialty Drug
Celgene
GILEAD
Asset Dilution
ALEXION
Dendreon
VERTEX
HGS
ACORDA
AMYLIN
Onyx
(osı) pharmaceuticals
Where is this breakeven for Merrimack? What is the risk / reward that Merrimack truly believes?
PDL BioPharma
Equity Dilution
Asset Dilution
Royalty
Co-Promote / Select Geographic
Retain All Rights
Equity Dilution
Low Funding/ High Valuation
High Funding/ Low Valuation
20
Bank of America Merrill Lynch

8 (cont'd)

MERRIMACK PHARMACEUTICALS

What Merrimack *Gives* By Partnering

For Quality Specialty Products, the Key Value Drivers are Control/ Ownership in Key Markets

Hierarchy of Potential Value

1. Wholly Owned, Most Valuable — Celgene, Gilead, Alexion, Dendreon
2. Selectively Partnered Geographically, Valuable — Myogen, Incyte, Acorda, Vertex, HGS
3. Partnered Globally (possibly acquirable) — Amylin, ImClone Systems Incorporated, (OSI) pharmaceuticals
4. Partnered with Sub-optimal Terms (unlikely acquirable outside partner) — ImmunoGen, Inc., Pharmasset[1], Plexxikon[1], Rigel
5. Partnered and Failed (saved investor cash) — Basilea, La Jolla, FibroGen, MAP, Novelos, Synta
6. Failed without Partnership — cti, Hana Biosciences, InterMune, Telik, Keryx

(1) Refers to lead asset.

Bank of America Merrill Lynch

8 (cont'd)

MERRIMACK PHARMACEUTICALS

Balancing the 'Gives' and 'Gets'

Illustrative Financial Analysis

	No Partnership	Partnership
Compound Value	**$2.0B**	**$2.0B**
Upfront Payments		$50m
Probability Adjusted Milestone Payments		$100m
R&D Reimbursement		$100m
Cash Flows on Success	100% of profits (~50% of sales)	~20% of sales (Royalties)
Asset Dilution (from Partnership)	0%	50%
Value of Rights Retained	**$2.0B**	**$1.0B**
Equity Dilution (from Financings)	40%	10%
Value to Current Shareholders	**$1.2B**	**$0.9B**
Acquisition Premium	50%	35%
Value to Current Shareholders at Acquisition	**$1.8B**	**$1.2B**

Key questions

Can the pharma add operating value and thus "grow the pie"?

Do the greater upfront payments / funding help offset long-term reduced share of profits?

How expensive is the capital from the capital markets?

What's the impact of having an encumbered asset?

In this example, partnering the program could reduce value by as much as 25% - 35% due to the impact of the asset dilution and reduced acquisition premium more than offset the reduced equity dilution

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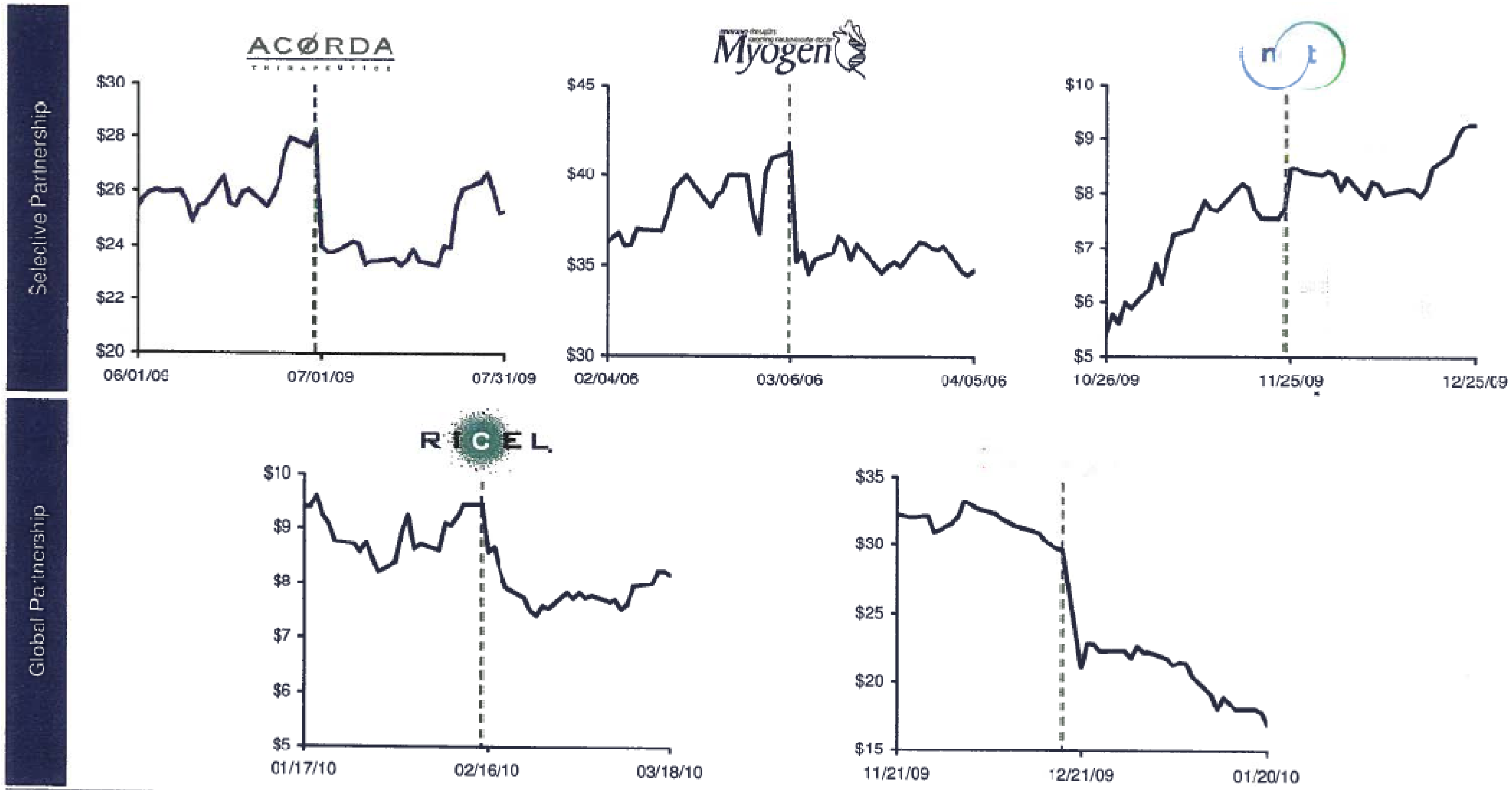
8 (cont'd)

MERRIMACK PHARMACEUTICALS

Investors Prefer Deals That Don't Limit Value Creation
Overall, for Quality Specialty Products, the Market has Reacted Negatively to Partnerships, Especially Global Ones

Market Reaction to Partnership Announcement



Source: FactSet.
Note: Dotted line represents date of partnership announcement.

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VM/S Concept 9

Create and insist upon a “humble” corporate culture—be pragmatic and realistic about your capabilities and competitive realities

VM/S Concept 10

It is not about you, it is about the product and long term job and value creation