

(As prepared for delivery)

Remarks at the PILMA Winter Meeting

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Hallandale Beach, Florida
November 11, 2010

Good morning! It's a pleasure and an honor for me to address this meeting of the Pharmaceutical Industry Labor-Management Association. Let me first of all thank you personally, and on behalf of Eli Lilly and Company, for your partnership in this great organization. I'm proud of our company's active involvement in PILMA and want to acknowledge Lilly's Joe Kelley, who serves on the board of trustees. I also have to mention that we're pleased to have a good Hoosier, Mike Sullivan, serving as chairman.

And on this Veterans Day, I'd like to salute all of the veterans here today – thank you for your service to our country. [Applause]

It was great to get together with so many of you last evening. And it's great to see you here again bright and early this morning. Last week, I spoke to a meeting of physicians at the Cleveland Clinic at about this time of the morning; just before my talk, there was a live broadcast of a bariatric surgery. So I was relieved that we were just having breakfast here this morning, and not looking at its digestion.

[Pause]

Today, I'm going to focus on innovation – which is not only my favorite topic, but an issue that PILMA has recognized as vitally important to the future of our industry ... and to the patients we serve ... and to our country, and its continued economic prosperity.

Innovation basically means finding new and better ways of doing things. And PILMA stands out in Washington as an organization that's finding new and better ways for labor and management in pharma to work together on public policy issues critical to both industry and labor. It's not rocket science, but, you know, the success we've achieved together is not all that common, either.

I think it's important to treat this effort as a two-way street – not just management coming to labor asking for support when we need it, but working together from the start to identify issues of common interest ... our common interest in the success of

the pharmaceutical industry ... and also our common concerns as health care consumers and patients.

[Pause]

One value that we all share is an appreciation of the importance of quality in pharmaceutical research and manufacturing.

Lilly has recently made major investments in biotech facilities in Indianapolis, San Diego, and New York ... facilities that demand the very highest standards of skill and attention to quality ... and we know we can count on the trade unions represented right here to meet and exceed those standards.

We're also investing in our facilities to improve safety, productivity, and energy efficiency. For example, we all know that laboratories tend to be energy-intensive facilities. For several years now, Lilly has been proactively designing and retrofitting our labs to use energy more efficiently. One of the major culprits in energy use is the fume hood, so we've been making upgrades such as variable-air-volume fume hoods and "low-flow" hoods. Virtually all of this work is done by the Sheet Metal Workers – and let me acknowledge, in particular, International Local #20 in Indiana.

This investment is good for the environment and for our company, and is a great example of working together with the building trades to produce results that are good for all of us.

[Pause]

That's the same kind of collaboration that has made PILMA a success in advancing policies that are good for our industry ... and for the people who depend on the innovative medicines we make.

PILMA is a strong voice for policies that promote innovation and provide a level playing field for American companies competing in global markets.

Later this morning, you'll hear more about PILMA's White Paper on Jobs and Innovation. A few weeks ago, I spent a day in Washington with your keynote speaker from last year, former House Democratic leader Dick Gephardt. We met with a number of House members, as well as the deputy director of the President's National Economic Council. The subject of those meetings was right in line with the PILMA white paper – jobs and innovation. We expressed our concerns surrounding the current policy environment for innovation, and we stressed the need for Congress and the White House to make medical innovation a top policy priority if our country is to retain global leadership in this area.

Let me say with guarded optimism, I think we're off to a good start. Senator Baucus has agreed host a meeting next month of the Finance Committee, with both industry and labor leaders, to discuss specifics of an innovation policy agenda. Furthermore, we received positive feedback from our discussions with the White House – and at their request, we're developing list of key policy objectives for further discussions.

Among the policies highlighted in the PILMA white paper is the need for tax system that levels the playing field for America's global companies, which currently face a higher corporate tax rate than their competitors around the world, and, unlike those competitors, must also pay taxes on their foreign earnings. The paper also stresses the need to raise the federal R&D tax credit to levels that make it globally competitive – and, I might add, it should be made permanent, as President Obama recently proposed.

PILMA has also been a strong voice for intellectual property rights protections ... which are essential to maintaining America's position within the global, knowledge-based economy. In 2009, PILMA passed a resolution calling on Congress to strengthen IP protections for innovators by providing for 12 years of data exclusivity for innovator biologics ... and we achieved a key victory when such a provision was included in health care reform passed last year.

That victory underscores the high level of collaboration between labor and management that we've achieved through PILMA ... and it could not come at a more critical time for our industry, as we face a policy environment that's more challenging than ever before.

Ultimately, we won't align on every issue, but we respect each other's position, and this mutual respect is PILMA's key strength ... and the basis for continued, constructive dialog.

[Pause]

What we have in common ... more important than anything else ... is a share in the work of extending and improving lives through new and better medicines. And so I want to focus this morning on the tremendous positive impact of innovative medicines on life, in our lifetimes ... victories in which every person in this room has played a part.

[Long Pause]

Over the past couple years, the debate on health care reform in this country has revolved around access ... quality ... and, probably most of all, costs. All of these

concerns need to be addressed, but we'll never improve any of these aspects of health care – in fact, we risk going backwards – without innovation.

Indeed, the impact of modern medicine on life spans over the past century is nothing short of astonishing. Here are some data from Harvard economist David Cutler:

- For tens of thousands of years of human existence, life expectancy at birth was maybe 20 to 25 years.
- In 1800, at the time of our Founding Fathers, life expectancy had risen to about 35 years.
- In 1900, life expectancy in the U.S. at birth was 47 years – a substantial gain of about one-third over a century.
- By 2000, life expectancy at birth had skyrocketed to 78 – 30 additional years! That's an increase of 66 percent over 100 years – unprecedented in human history!

If you're older than 50, like me – I admit – we've added nearly a decade to lifespans just in our lifetimes! Seen another way – each day of our lives, every 24 hours, we've gained an additional five hours! [*Although it's still not enough hours to clear my email.*]

Let's look at the impact of medical innovation during that time on the two biggest killers: heart disease and cancer.

New diagnostics let physicians peer into the heart ... new interventions like bypass surgery and stents – which were pioneered by Lilly's ACS subsidiary in the '80s – enabled patients to survive damaged blood vessels ... and hearts could even be replaced through transplantation.

Even better – for the first time, people could prevent coronary damage with new drugs that controlled blood pressure ... reduced cholesterol ... or broke up clots.

As a result, since 1975, death from coronary heart disease has declined by nearly 60 percent! Think about that.

To put a human face on that figure, more than one million additional Americans would die of heart disease or stroke each year if the death rates today were what they were 30 years ago.

The decline in cancer deaths over this same period has been less dramatic ... but no less steady.

In 1975, the five-year survival rate for all cancers together was 50 percent. In other words, if you were diagnosed with cancer in 1975, you had a 50/50 chance of living five years.

Today, the five-year survival rate is nearly 70 percent.

Seen from another angle, the American Cancer Society says that from 1991 to 2007, the death rate for all cancer dropped 17 percent. Again, over 100,000 more people would be dying from cancer every year without this decline.

And while some cancers still remain beyond the reach of today's medicine ... we're making progress against many others. Before 1950, a child diagnosed with leukemia had three months to live. Today, a child diagnosed with leukemia has an 80 to 90 percent chance of being cured.

Every one of us has felt the impact of cancer and other diseases – on ourselves or family and friends who are dear to us. The fight we wage against disease is personal ... and inspiring. Among of the most moving experiences of my job are the opportunities to meet face-to-face with patients whose lives have been touched by Lilly medicines. I wish that everyone here could share those experiences, because you all play an indispensable part in this noble effort.

[Pause]

With the help of medical innovation, not only have we purchased additional decades of life and health ... but the economic payback from these gains is also difficult to overstate. The payback is years of productive work, economic value added, consumer spending, and tax dollars paid – which together outweigh the costs of treatment overwhelmingly ... even if you resist putting a number on the intrinsic value of being alive!

Just as the return on medical innovation repays its cost many times over ... I believe one area of innovation, in particular, accounts for the greatest part of that return.

A study by Columbia University Professor Frank Lichtenberg looked at the increase in life expectancy during the 1980s and 1990s, and found that the launches of new medicines accounted for 40 percent of the total.

In other words – in the study – for every year that life expectancy has increased, five months can be attributed just to the availability of new medicines.

Furthermore, there's compelling evidence that innovative medicines are also the most cost-effective part of health care.

- Over the last 40 years, the use of medicines has cut in half the number of hospital admissions for 12 major diseases.
- The power of new cardiovascular medications in the past 30 years to prevent or delay heart disease already has eliminated the need for tens of thousands of costly surgeries and hospitalizations.
- Other medicines have kept thousands of patients with mental illness from facing institutional confinement for months or years – often at taxpayer expense.

This is critically important at a time when health care costs are soaring around the world. Here in the U.S., health care spending doubled between 1980 and 2000 ... and it doubled again in just the last decade.

And, with aging populations around the world, cost pressures are only going to get worse. A report issued earlier this year on Alzheimer's disease said that the global costs for caring for people with dementia in 2010 would surpass \$600 billion – equal to about 1 percent of the world's GDP. Another report released in May said that Alzheimer's will cost the United States some \$20 trillion by 2050 if we don't find successful treatments. That's trillion, with a "T."

Lilly recently hosted David Snow, CEO of Medco – the largest pharmacy benefit manager in the U.S. Given that Medco's business is to help their clients manage their health care spending, you would say David is an expert on cost-effective medicine.

One piece of data he shared was that Americans with chronic and complex diseases – such as diabetes, heart disease, osteoporosis, and cancer – account for 75 percent of U.S. health care spending. Furthermore, according to Snow, "For 88 percent of chronic and complex diseases, drugs are a first choice for medical intervention."

Consider diabetes. If unmanaged, diabetes can lead to a cascade of potential complications that exacts a growing human and economic toll – including blindness, amputation, kidney disease, and death.

Medco looked specifically at the costs of treating patients with diabetes, depending on how well they adhered to their prescribed course of medicine. A 2005 study of Medco's prescription claims database found that costs for those in the least compliant group were nearly \$9,000 a year. Costs in the most compliant group were about \$4,600 – just about half. What's interesting is that as people kept taking their medicine, their costs for prescription drugs increased (as you would expect) ... but this increase drove overall costs way down.

The math is similar for many diseases. In case after case, innovative medicines are often the most effective alternative – medically and economically.

Here’s how David Snow summed it up for my Lilly colleagues. He said: “Drugs used properly are part of the solution, not part of the problem.”

In making the case for the value of medicine, I also need to point out that seven out of 10 prescriptions Americans fill this year will be for generic drugs – and generics in this country are clearly one of the best bargains in health care. However, it’s important to remember that these drugs are the fruits of our research. Generics would not exist without the billions of dollars and 10 to 15 years of research required to bring the original breakthroughs to market. The cost-effectiveness of generic drugs – a tremendous boon to our citizens and people around the world – are the legacy of pharmaceutical research ... and, part of the overall value we help create.

[Pause]

For all the value generated by innovative medicines ... and felt at a personal level by each one of us ... the full picture is not complete without accounting for the impact of life sciences research on the broader U.S. economy.

Today, the U.S. is the undisputed leader in medical advances. Our biopharmaceutical sector is the envy of the world. Directly and indirectly, the pharmaceutical industry provides jobs for 3.2 million people who live in all 50 states.

The broader biosciences industry supports a total of 7-1/2 million jobs across the U.S. economy. From 2001 to 2008, jobs in life sciences grew by nearly 16 percent – that’s about 4-1/2 times the rate for the national private sector. That’s the kind of job growth we need!

More new medicines are in development in the United States than in all other countries combined. This wasn’t always the case. As recently as 1990, the pharmaceutical industry spent 50 percent more on research in Europe than in the U.S. By 2001, that was reversed, with the industry spending 40 percent more in the U.S. And we’ve never looked back.

[Pause]

So the work we do to discover, develop, and manufacture innovative medicines not only improves health and extends lives – it is also a bedrock strength of the American economy. Indeed, more broadly, America’s genius for innovation has always been our greatest competitive advantage, but, unfortunately, we’re in danger of losing that lead.

A recent study ranked the U.S. sixth among the top 40 industrialized nations in innovative competitiveness, but 40th out of 40 in “the rate of change in innovation capacity” over the past decade. The ranking measured what countries are doing – in higher education, investment in R&D, corporate tax rates, and more – to become more innovative in the future. The U.S. ranked dead last.

I firmly believe that, when it comes to sustaining innovation, the burden remains on enterprising companies like Lilly. However, the one thing that the biomedical industry has a right to ask of public policy is to create an environment in which innovation is possible.

Because innovation has been a fundamental principle at PILMA, and in the spirit of dialog I touched on earlier, I want to share with you how I frame this issue.

The fact is, the pursuit of innovation in any field is a difficult, high-risk venture. If innovation is to take root and grow, it requires a combination of elements I have described as an “ecosystem.”

The first element of this ecosystem is an atmosphere in which innovation can thrive, a society that understands and appreciates scientific inquiry, and free markets where innovators can expect to be rewarded for the risks they take and the value they create. This has always been an American strength. Yet today you’ll hear some people say that we have all the innovation we need — or that, in this difficult economic climate, we just can’t afford any more of it! This is nonsense.

The second element of the ecosystem — nutrients — comes in the form of monetary investments. For investors to take the risks associated with innovation ... and certainly medical innovation is a very high risk enterprise ... they must have a fair chance at earning a return when they succeed. That requires the ability to offer innovative products at market prices; solid protection of intellectual property; a fair, rigorous, and transparent system of regulation; and a tax structure that provides companies the ability and incentives to invest in the first place – the kinds of policies for which PILMA has been a strong and effective advocate.

The final and most important elements of the ecosystem are the seeds of innovation, which equate to talented people and their ideas. Human talent is our most precious resource, but one that remains woefully underdeveloped in this country.

This is a huge issue in itself, but let me just mention two essential tasks:

- First, with our kids falling further behind on international comparisons in education, we've got to get serious about broad improvement in science and math instruction in our grade schools and high schools.
- Second, we need immigration laws that allow and encourage top scientists from other countries to choose to work and to remain in the United States. This does not entail drastic changes, but a sensible increase in visas for highly skilled immigrants and a shorter, simpler green-card application process.

[Long Pause]

I want to thank you, once again, for your participation in PILMA to advance public policies that support the pursuit of innovative pharmaceutical medicines. Even more, I want to thank you for your contribution to that very important work. We can take pride in what we have accomplished together ... but we can't rest on our laurels. There is so much more to be done.

We know that the treatment for Alzheimer's disease – and for cancer, diabetes, and other tenacious diseases – will most likely come from companies like those represented here ... and that finding innovative medicines is both a moral – and an economic – imperative.

- Without innovation, we won't be able to provide more effective health care to a rapidly aging population ... or control health care's real cost drivers, including long-term care and hospitalization.
- Without innovation, we will be defenseless against growing scourges – such as Alzheimer's disease ... diabetes ... “superbugs” ... and cancer.
- Without innovation, the staggering health crises that linger in the developing world will get worse ... not better.
- Without innovation, we will not come close to matching the last century's progress in longevity and quality of life – and may even go backwards.

In our day-to-day work ... and in our collaborative efforts through PILMA ... we can all play our part to ensure that pharmaceutical innovation continues to improve the lives of people around the world.

By doggedly pursuing new and better medicines, and by advancing sound public policies to promote continued innovation, we will continue the amazing progress that transformed human life in the 20th century ... and create value that stands above all other: the value of greater health ... productivity ... and life itself.

We all want nothing more than to be able to do what we have done so well for so long for so many people – producing innovative medicines that benefit patients. That’s what PILMA is all about: advancing public policies that allow our industry to continue to deliver innovation – innovation that creates economic opportunities for the people of this country – and improves the lives and health of our moms and dads ... our sons and daughters ... and our family and friends.

Thank you.

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