

Finance 101 for Medical Affairs

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Presenters



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Sr. Director, Medical Affairs
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USA



Michael Kahn

Medical Affairs Operations
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Educational Objectives



This session will provide a learning opportunity for our audience by:

- Describing the main differences between internal and external financial reporting
- Identifying components of budgeting/financial planning, cost and expense management, and financial statements
- Articulating how internal financial reporting in MA fits into the larger Finance organizational ecosystem
- Defining at least 10 terms relevant to finance and Medical Affairs Professionals and have an improved understanding of the language of Finance
- Applying three actions to build effective partnerships with Finance colleagues
- Demonstrating effective communication skills that MA Professionals can use when interacting with Finance colleagues

Bio and career journey...



Funso Olufade PhD, MBA

Sr. Director, Head Commercial Finance

Ascendis Pharma Inc.

Princeton, NJ

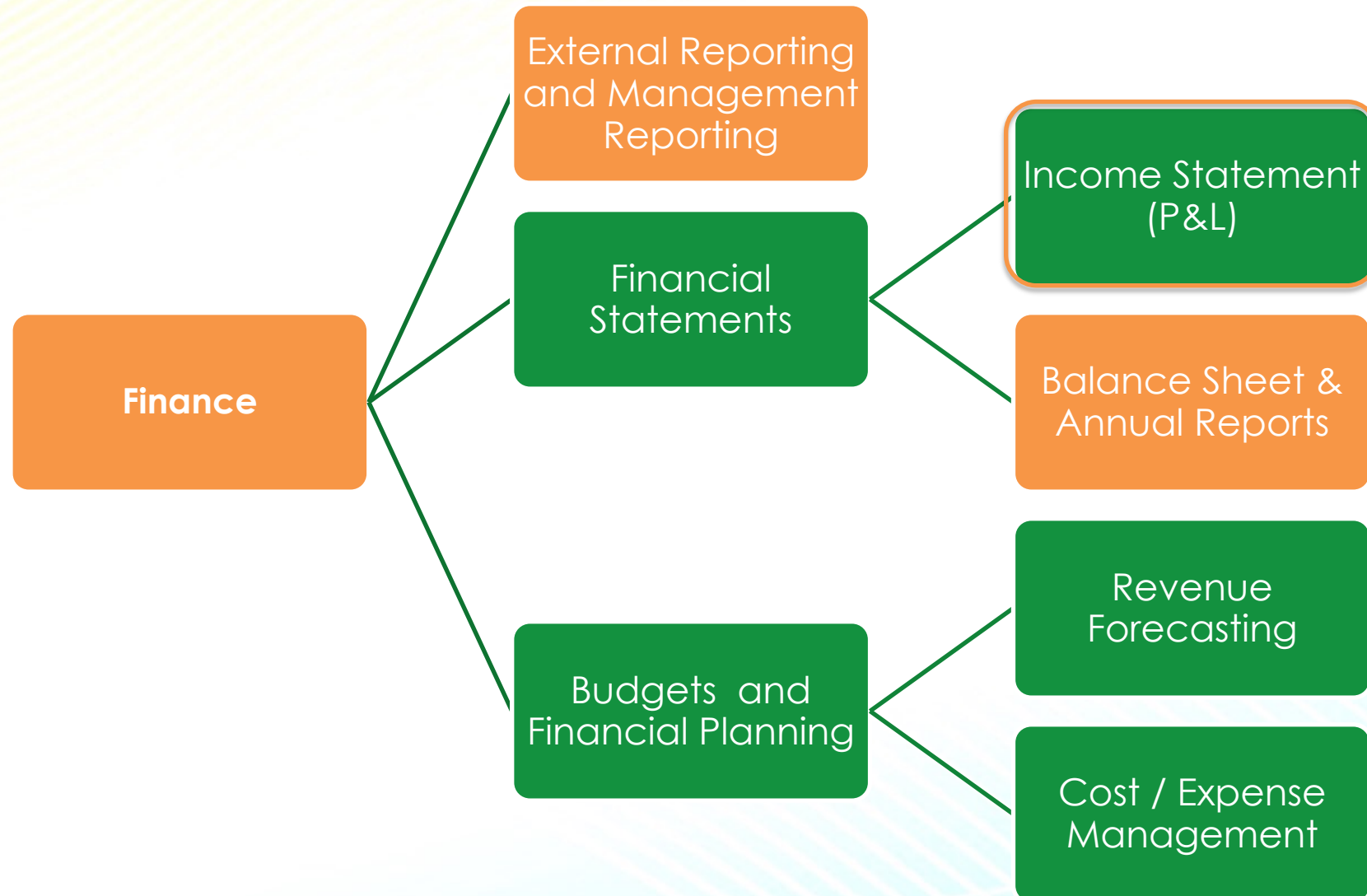
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Funso Olufade is a healthcare finance leader and pharmaceutical executive based in Princeton, NJ USA. He has held roles in various multi-national companies with the quest of improving global patient access to medicines. With global biotech companies including Bayer, Sanofi, Daiichi -Sankyo and Amicus Therapeutics, Funso also lived and worked in Europe for over four years and has travelled to over 30 countries.

He holds a Ph.D. in Health Sciences from Seton Hall University, MBA Finance, and a Bachelor of Science degree in Economics from Rutgers University. Funso is an Adjunct Professor at Rutgers University – Bloustein School of Public Policy and a Board Member of the American College of Healthcare Executives (ACHENJ). Funso also volunteers for a healthcare nonprofit - Devoted Skies delivering medical supplies to global underserved communities.

Learning Outline



Have no fear...



Healthcare Stakeholders and the “Eco-System”

1 Physicians / Providers



2 Policy



3 Payers



4 Producers



5 Patients



Missing within the ecosystem are investors, banks, venture capitalist, and institutional financial firms. **Why do we need finance?**

Why we need Finance

External Financial Statements provide information to external investors, lenders, government agencies about financial health and performance of the company

Why it's important – companies are owned by shareholders; if companies need a loan, banks need financial reports, shareholders need to monitor investments and make portfolio decisions

Internal Financials & Management Reporting helps company leadership manage and allocate resources in order to achieve strategic objectives and achieve profitable growth.

Comparison: we manage our finances every day – we allocate our compensation/salaries to mortgage payments, food, play, vacations, and savings for retirement

Comparing pharma | biotech finance to owning a home



- The beautiful Beverly hills estate or Tribeca NYC condo = **ASSET**
- Down-payment on the house = **EQUITY**
- Financing what the bank lends us (mortgage) = **LIABILITY**
 - Payments decreases liability, and equity increases
 - Value of real estate goes up = Asset is increasing and equity is increasing

What are External Financial Statements

2

Balance Sheet (Financial Position statement)

Assets:

Everything a business owns (cash, receivables, inventory, property, equipment, investments)

=

Liabilities:

Debts, payments and financial obligations of a business

+

Equity:

Retained earnings (revenues minus expenses) and what shareholders paid for stock

Cash Inflows

-

Cash Outflows

3

Cash Flow Statement

Revenue

-

Expenses

1

Income Statement Profit and Loss (P&L)

Income Statement

- **Purpose of a P&L** : Description of an organization's net profit achievement in a period of time (**Financial performance statement**)
- Summarizes the cumulative impact of **revenue**, **expenses**, and other transactions for a given period
- The document is often shared as part of quarterly and annual reports, and shows financial trends, business activities and comparisons over set periods

Revenue – Expenses = Net Income or Product Contribution (Profit or Loss)

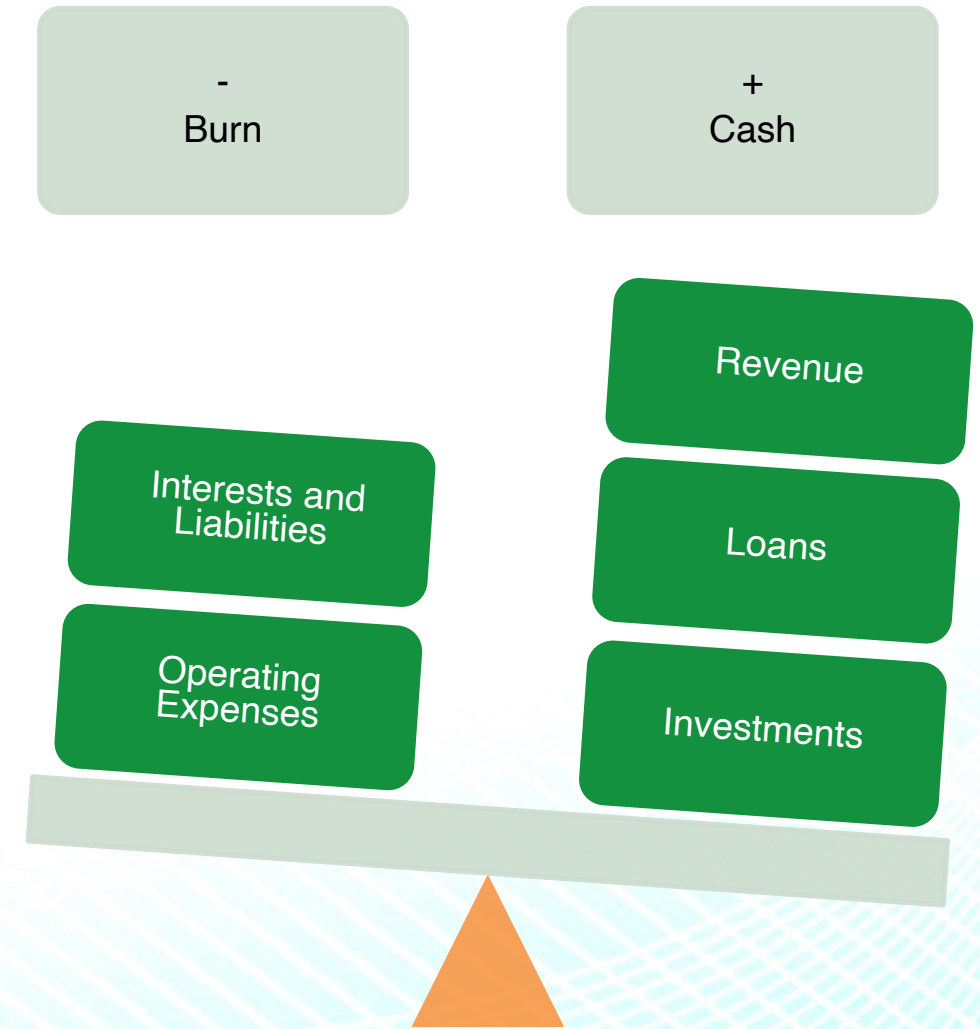
Balance Sheet

- A balance sheet conveys the “book value” of a company and gives a picture of financial health at a point in time
- It allows you to see what resources it has available and how they were financed as of a specific date. It shows its assets, liabilities, and owners' equity (essentially, what it owes, owns, and the amount invested by shareholders)
 - Is the company financed primarily by debt or equity?
 - How much cash or liquid (easy to convert to cash) assets does the company have vs. other assets
 - How much of the debt needs to be paid in the current year vs. longer term

CONSOLIDATED BALANCE SHEETS		
December 31,		
(In millions except par value)		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,926	\$ 6,006
Short-term investments	2,025	9,352
TOTAL CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS	10,951	15,358
Marketable securities	5,013	5,317
Trade accounts receivable, less allowances of \$489 and \$477, respectively	3,396	3,667
Inventories	2,766	2,655
Prepaid expenses and other assets	1,962	2,000
Assets held for sale	—	219
Assets held for sale — discontinued operations	6,546	7,329
TOTAL CURRENT ASSETS	30,634	36,545
EQUITY METHOD INVESTMENTS	19,407	20,856
OTHER INVESTMENTS	867	1,096
OTHER ASSETS	4,139	4,230
DEFERRED INCOME TAX ASSETS	2,667	330
PROPERTY, PLANT AND EQUIPMENT — net	8,232	8,203
TRADEMARKS WITH INDEFINITE LIVES	6,682	6,729
BOTTLERS' FRANCHISE RIGHTS WITH INDEFINITE LIVES	51	138
GOODWILL	10,263	9,401
OTHER INTANGIBLE ASSETS	274	368
TOTAL ASSETS	\$ 83,216	\$ 87,896
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 8,932	\$ 8,748
Loans and notes payable	13,194	13,205
Current maturities of long-term debt	4,997	3,298
Accrued income taxes	378	410
Liabilities held for sale	—	37
Liabilities held for sale — discontinued operations	1,722	1,496
TOTAL CURRENT LIABILITIES	29,223	27,194
LONG-TERM DEBT	25,364	31,182
OTHER LIABILITIES	7,638	8,021
	1,933	2,522
Common stock, \$0.25 par value; Authorized — 11,200 shares, Issued — 7,040 and 7,040 shares, respectively	1,760	1,760
Capital surplus	16,520	15,864
Reinvested earnings	63,234	60,430
Accumulated other comprehensive income (loss)	(12,814)	(10,305)
Treasury stock, at cost — 2,772 and 2,781 shares, respectively	(51,719)	(50,677)
EQUITY ATTRIBUTABLE TO SHAREOWNERS OF THE COCA-COLA COMPANY	16,981	17,072
EQUITY ATTRIBUTABLE TO NONCONTROLLING INTERESTS	2,077	1,905
TOTAL EQUITY	19,058	18,977
TOTAL LIABILITIES AND EQUITY	\$ 83,216	\$ 87,896

Cash Flow Statements

- Shows cash flow for a period of time from either operating activities, investing activities, or finance activities
- How the cash was received. Cash from operations – do company's operations generate cash or burn cash.
- Will the company be able to pay interest and principal on its loans and other obligations
- How much cash do company's investments generate
- If the company's operations burn cash, then how does the company raise cash to support its operations (borrowing from lenders or raising cash from shareholders)
- Based on how much cash the company burns, how long can the company carry its operations with the current cash balance

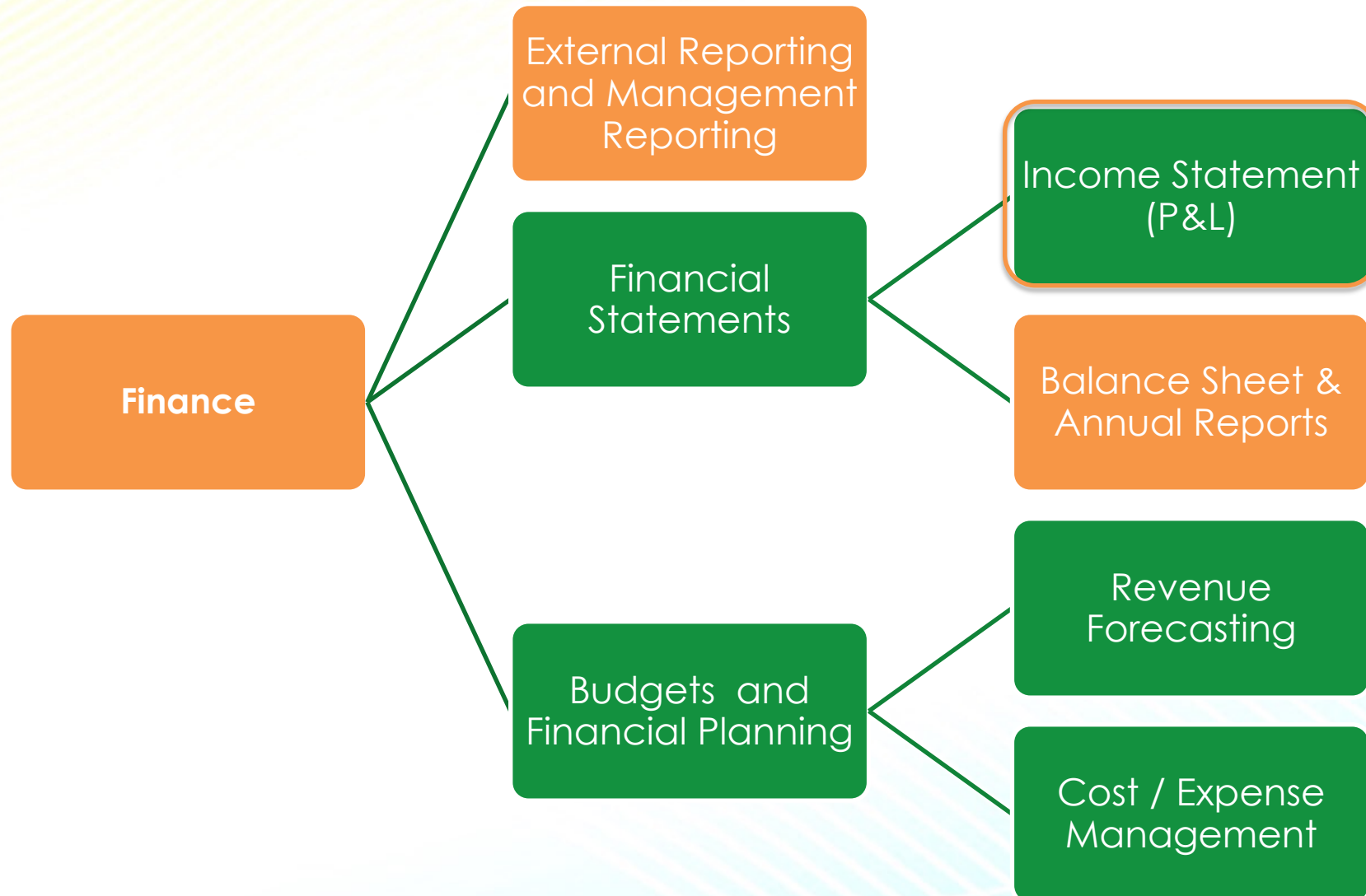


KNOWLEDGE CHECK #1

Which of the following is not an external financial statement?

- A. Cash Flow Statement
- B. Production Log
- C. Balance Sheet
- D. Income Statement

Learning Outline





Internal Financial Reporting

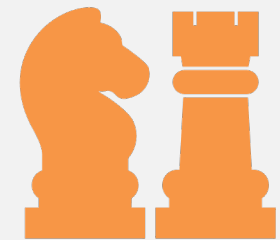
Internal financial statements contains additional details vs. external to help management track effectiveness and plan operations



Cost management categories important for internal reporting include legal entity, product codes, departments, cost centers, purchase requisition #s, internal orders, etc.

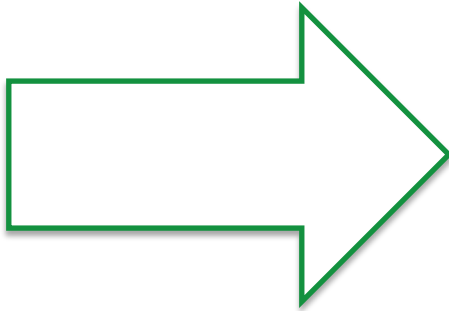


Provides context on if adopted strategies and tactics are working to allow them recognize problems before they occur



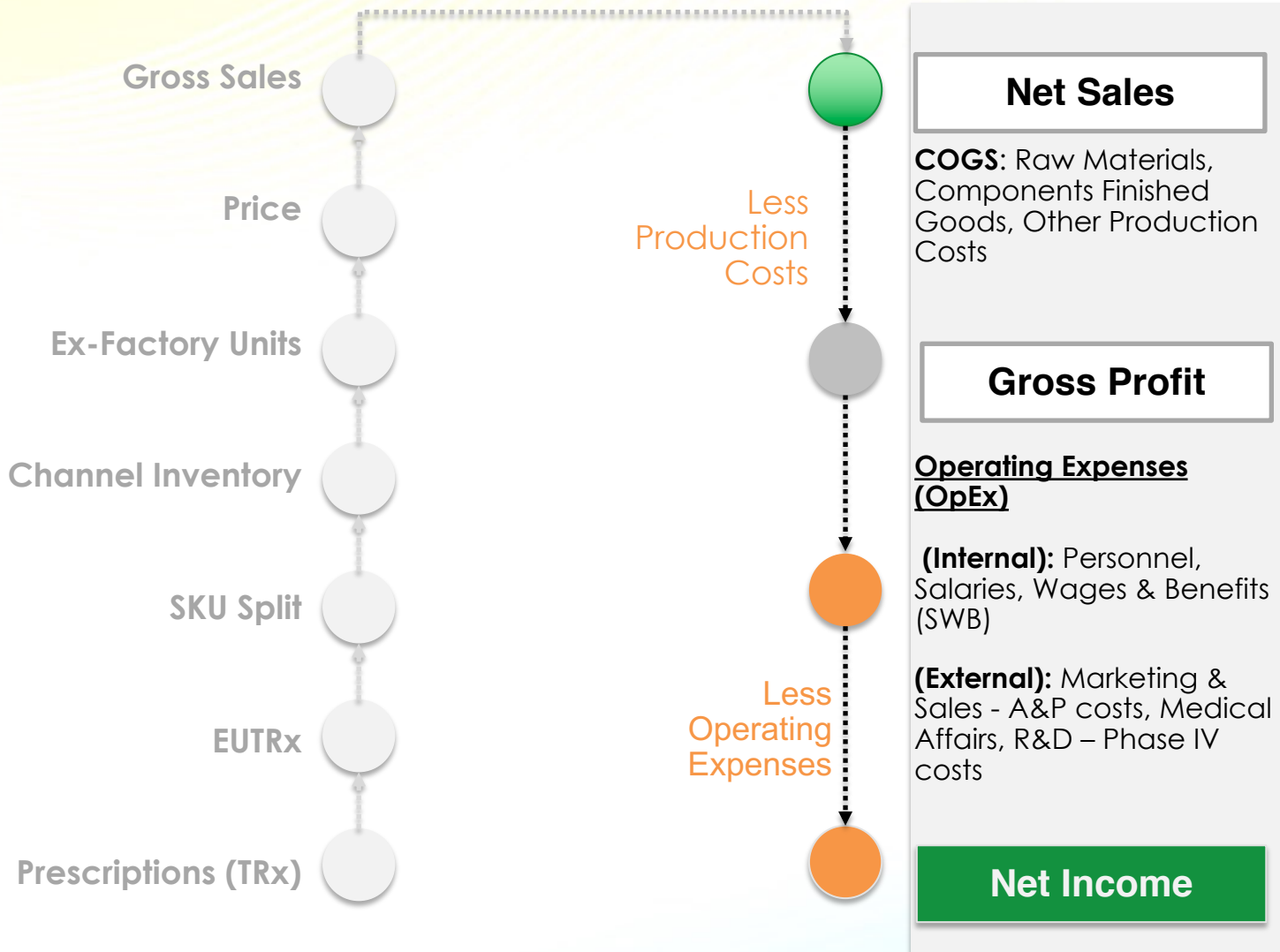
To keep records of operations and tactics, finance processes and principles are utilized

Financial Statement preparation is governed by a set of rules and accounting principles: Generally Accepted Accounting principles (US GAAP) or International Financial Reporting Standards (IFRS)



- **Journal Entries**
 - Financial activities are recorded via journal entries. They can be used to book original transactions or to correct previous errors. Journal entries must include at least two accounts in order to keep the accounting equation balanced
- **General Ledger (G/L) Accounts**
 - All assets, liabilities, revenues and expenses are captured in G/L (General Ledger) accounts. Identical to a code or dimension, it denotes what an expenses types is and where it should be posted
- **Closing the Books**
 - Process to finalize all of the revenue and expense accounts at the end of each month. Allows for an organization to identify the profit or loss for that period
 - To do this **accrual accounting** or matching principles are often used, then consolidation of all sections before financial statements are prepared

P&L Structure and Key Performance Indicators (KPIs)



1. **Revenue:** The amount of money a business takes in for sales of product and/or royalties. Volume price
2. **Costs of Goods Sold (COGS):** The cost of component parts of what it takes to make the product a business sells
3. **Gross Profit:** Total revenue less CoGS
4. **Operating Expenses:** The amount of money a business spends to facilitate the running of the business. Includes personnel (wages + benefits) and external costs
5. **Operating Income:** Gross profit minus operating expenses (Net profit or Loss)

Financial Planning and Budget Management

Looking through the rearview mirror:

Past is a good indicator of what will happen in the future



- If we can accurately capture current actual costs, we should be able to determine future spend
- **What is Budgeting:** systematic quantitative plans on paper so we can see problems before they arise

Purpose of Budgeting and Financial Planning (Forecasting)

Establish a plan, so that performance in relation to a goal or the plan can be carefully monitored

Pro

- Ongoing comparison between actual results and the budget/plan is required to assess performance, revise strategy and improve organizational effectiveness
- Budget managers should plan expenses in the period when they expect services to be completed
- When forecasting revenues, plan expenses related to generating these revenues: estimate all the discounts, rebates and potential returns

KNOWLEDGE CHECK #2

Which of the following is not an integral part of finance operational process?

- A. Journal Entries
- B. Budgeting
- C. Sunshine Act
- D. Month end-close
- E. GL Code/Account

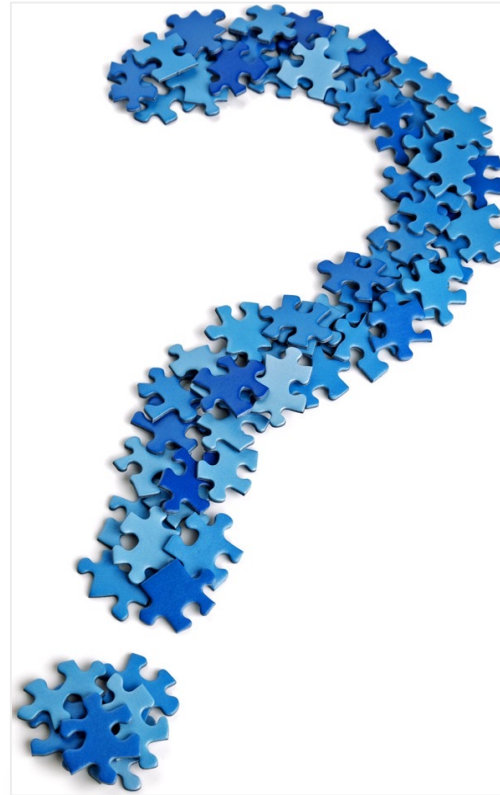
Behind the fancy .xls models and financial greek, the best finance business partners use common sense



Anyone still there...

Here's Michael

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Bio and career journey...

Michael Kahn, MBA

Medical Affairs Operations Leader

Spark Therapeutics

Philadelphia, PA

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Michael Kahn is Medical Affairs Operations Leader at Spark Therapeutics, a fully integrated, commercial company committed to discovering, developing and delivering gene therapies, headquartered in Philadelphia. Michael oversees the technology, project management, finance, and strategic planning functions for Spark's growing Medical Affairs department encompassing multiple therapeutic areas. He joined Spark in 2015 where he developed its Medical Communications function. Before that, Michael spent 7 years at Shire Pharmaceuticals in various medical communication leadership roles, and began his career in account management, project management, and editorial roles at several medical communication companies. He holds an undergraduate degree in journalism from Northwestern University and an MBA from Lehigh University.

Medical Affairs and Finance: Best Collegial Practices



This presentation is the opinion of the presenter and does not reflect the opinion of Spark Therapeutics.

MA and Finance: A Marriage Made In ...?

- What we'll cover now:
 - Making the connection
 - The value of good questions
 - How you can help them

Polling Question #1

- Please select one:
 - I prepare my own tax returns
 - I hire a qualified accountant
 - You're supposed to file tax returns?

Polling Question #2

- Name one personal interest or passion of your Finance business partner (free text response)

Making the Connection

- Getting to know your Finance business partner
 - Making a personal connection helps every working relationship
 - Move beyond any stereotypes you might have about accountants (and help them do the same about scientists)
 - It's easier to influence (and be open to being positively influenced) when you've built a connection

Ask Lots of Questions

- Demonstrates your curiosity in their area of specialty
- There are no stupid questions (except the ones you don't ask)
- If they use a term you don't understand, interrupt them and ask them to explain
- Sense that you're trying their patience? You're just trying to help your team manage funds optimally

Polling question #3

- What's your comfort level and proficiency in Excel/Sheets, or SAP or similar if your organization uses it? (select one)
 - TERRIBLE: I get anxious when I see it open on my computer
 - FAIR: I can live with it but I need someone to walk me through reports; I prefer to communicate using PowerPoint
 - GOOD: I can interpret others' files and build my own reports using basic formulas
 - AWESOME: I authored "Pivot Tables For Dummies"

Ask Lots of Questions: Penetrating the Impenetrable

- Spreadsheets and financial reports are mostly numbers with a structure: together they tell a story. If that story is unclear:
 - “What should I focus on within this page or tab?”
 - “If I had to put this into PowerPoint for my boss, what should I highlight?”
 - “What message does this suggest I send my team (ie, spend or save)?”
 - “What can Medical do to make your operations here smoother or more reflective?”
 - What do you need Medical to direct to its vendors/partners?

Help Finance Using Your Strengths: Processes and Planning



- Problem?
 - The top 3: underspend, overspend, inaccuracy
 - Outline and agree on the steps to address
 - Avoid the quick fix and quick communication, responding with just a revised set of numbers
- Understand your partner's objectives (ask!)
- Make a plan with discrete steps where your activities align with their objectives

Thank you!

Save the Date- Registration will be coming soon for the next webinar in our series. Mark your calendar-

**Wednesday, November 9th
10:00 EST**

Commercialization

The webinar will seek to help Medical Affairs professionals:

- Better understand the business of life science companies
- How their efforts impact the overall capability to commercialize a product
- Bridge the commercialization interface between their departments and Marketing and Sales