

**DA Education:
How Do They Do That?**

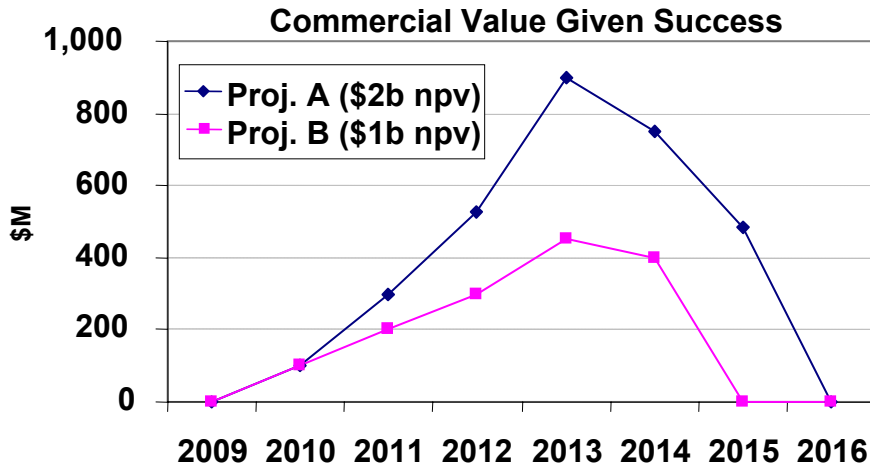
*April 21, 2005
Decision Analysis Affinity Group
(DAAG)*

A simple case illustrates the analytic structure (assumptions)

| Phase | PoS (Proj. A) | PoS (Proj. B) | Dev Cost | Year |
|-----------------|------------------|------------------|-------------|-------------|
| 1 | 50% | 70% | 3 | 2005 |
| 2a | 40% | 50% | 11 | 2006 |
| 2b | 40% | 50% | 37 | 2007 |
| 3 | 80% | 90% | 206 | 2008 |
| Reg | 50% | 95% | 1.5 | 2009 |
| Approval | 3% | 15% | 259 | 2010 |

Projects A and B are vying for the same budget

- Project A is five times riskier than Project B
- Projects A & B have identical;
 - development cost
 - development timeline
 - launch date

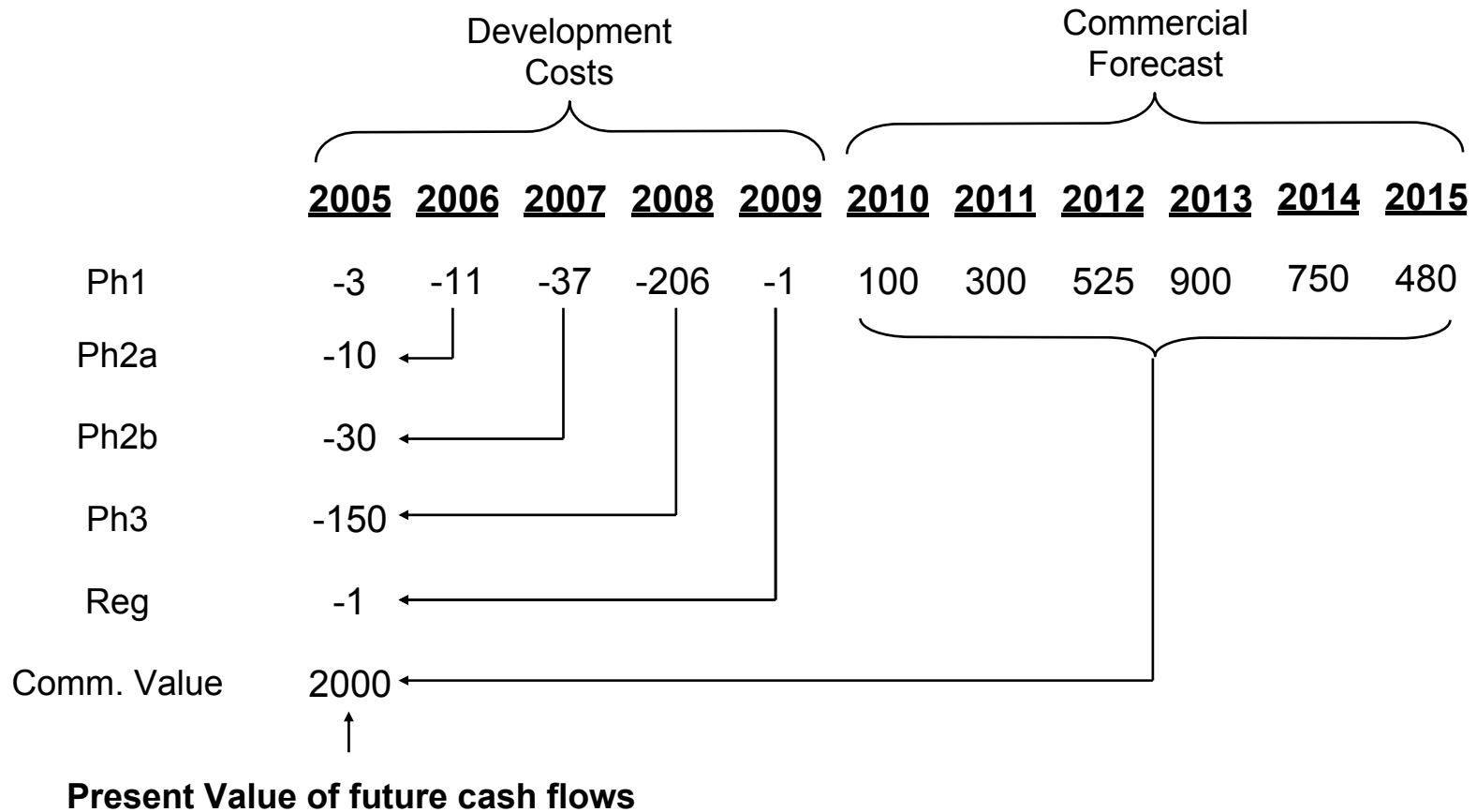


Given success, project A is twice as valuable as project B as measured by NPV

- Project A has higher peak sales
- Project A has longer period of exclusivity

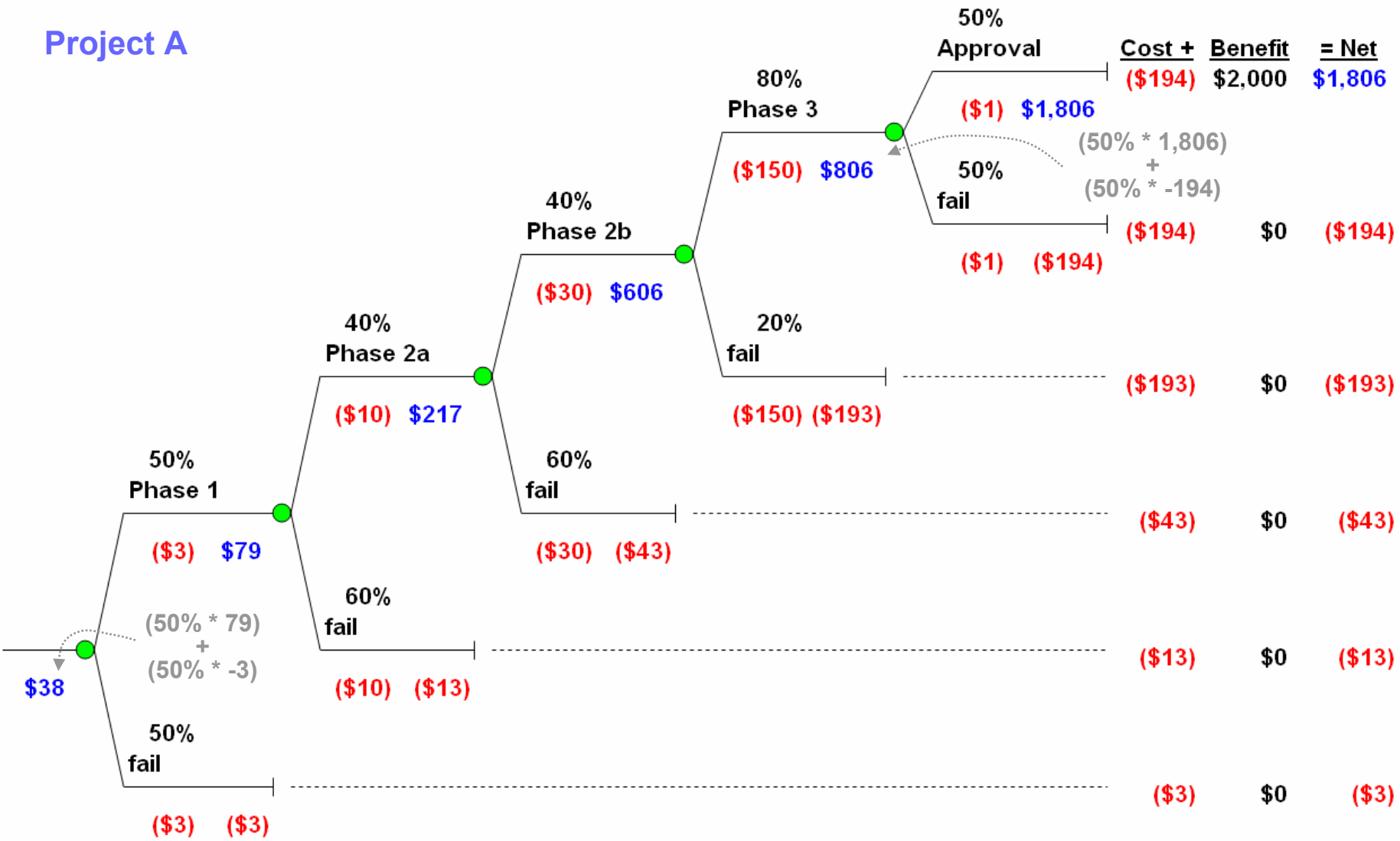
Which project should be funded, A or B?

Time value of money: Discount future cash flows to their present value to compare investments with different time horizons

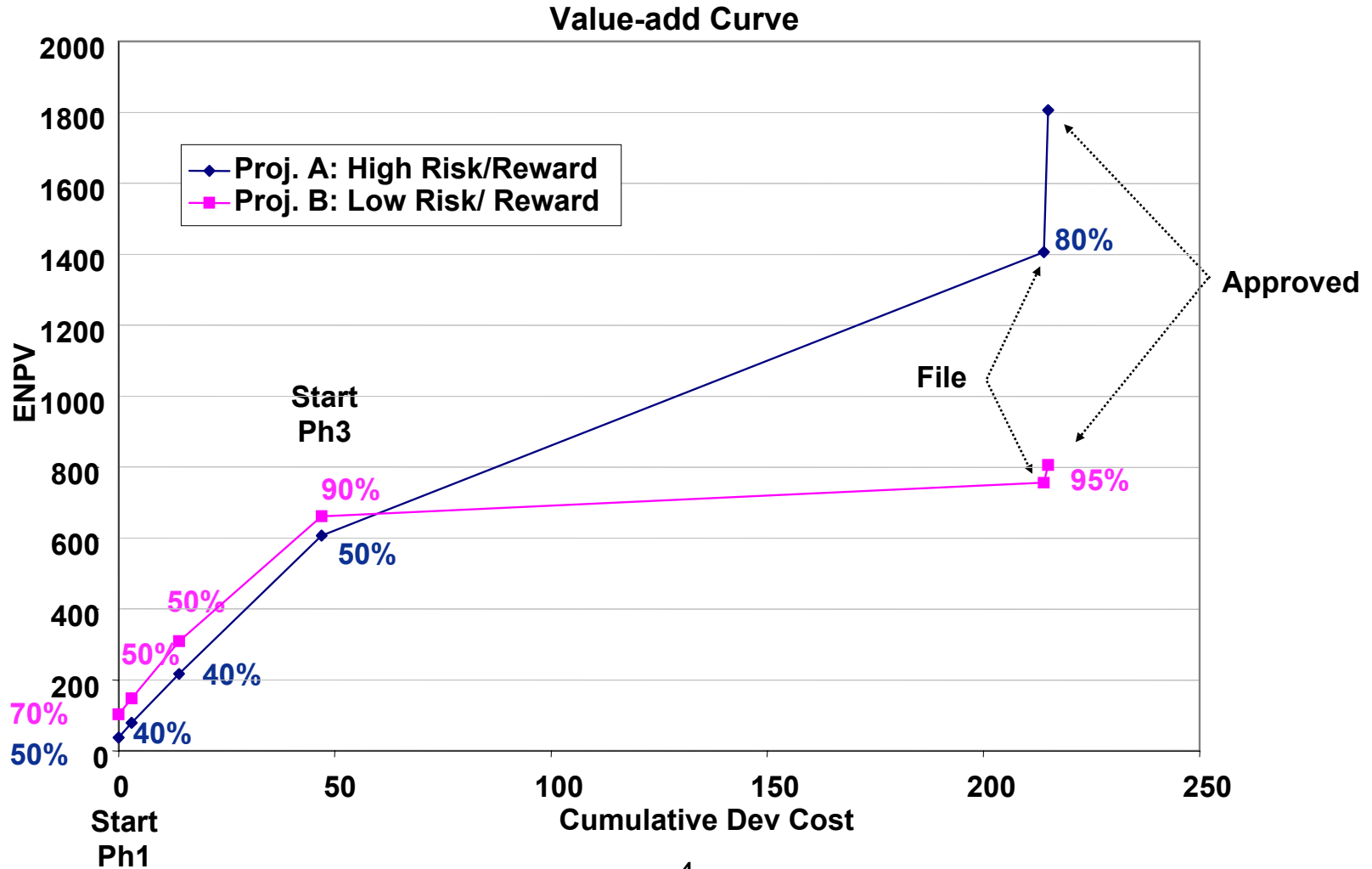


ENPV is the probability-weighted average NPV of all financially relevant outcomes - both successes and failures

Project A



Financial metrics typically improve as R&D investment resolves technical risk



Comparing risk resolution profiles can be misleading

