

# The Oak Alliance Model

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***Oak Therapeutics is a company founded on the principles of innovative drug delivery and distribution with a goal to make medications that are safe, affordable and available to all people regardless of geography or economic status.***

**Even in the 21<sup>st</sup> century**, millions of people in developing and emerging nations do not have access to basic medicines and treatments needed to sustain life and well-being. People in these nations are facing desperate socio-economic conditions, widespread poverty, poor sanitation, chronic health-related problems, low levels of education and social injustice. Children, especially, suffer needlessly from treatable conditions. At OAK therapeutics, we see these as mutable problems with attainable solutions. These solutions will provide health and social benefits to people living in developing nations while building a profitable global business for Oak. Our focus is on the development of pharmaceutical and non-pharmaceutical drug delivery options suitable for all environmental conditions, and a business model that fosters sustainability through entrepreneurship and self-respect. Our approaches to both product and process create a unique business model. We are a “for-profit” business for which humanitarian and developmental outcomes are the keys to profit. The developing world and emerging markets are our major targets in which we make business opportunities profitable for both the local community and Oak. Our unique methods for drug delivery, culturally-aware packaging and a partner based distribution network for medications makes existing medications more appealing, affordable, safer and convenient. This leads to ease of use and improved health-related outcomes. OAK is also innovative in the way we make the most of proven pharmaceuti-

cal. We understand the importance of scale, but we also remain flexible and locally responsive. We call this unique approach the **OAK Alliance Model**.

## 1 KEY ELEMENTS OF THE OAK ALLIANCE MODEL

Oak uses an innovative profit-based business model focused on creating and selling high quality medicines through partnership with local affiliates. The key elements of the OAK Alliance Model are **INNOVATIVE PRODUCTS, DISTANT TARGET MARKETS, LOCAL ENTREPRENEURSHIP AND ALTERNATIVE DISTRIBUTION CHANNELS**.

**INNOVATIVE PRODUCTS.** We offer a broad range of pharmaceuticals in our portfolio including anti-infectives, anti-inflammatories, cardio-vascular, and neurologics, as well as a variety of non-pharmaceutical health supplements. At Oak, we reformulate FDA/WHO approved drugs into our proprietary oral thin film delivery format (OTF). OTF's are small, pleasant tasting strips that are placed on the tongue or the inside of the cheek. As these strips melt, they release the medicine they contain. Unlike syrups, tablets and powders, OTFs are less messy and less complicated to administer and do not require water. OTFs are particularly well suited for children because once applied to the cheek, the OTFs remain in place until completely

dissolved. Bitter drugs are masked and then made palatable with pleasant, child-friendly flavors. Our unique packaging makes existing medications safer for patients living in sub-standard conditions, and OTFs are harder to counterfeit than pills, powder or liquids. They offer a high degree of stability for pharmaceutical quality control. OTFs are easy to use and therefore will be more likely to be used ensuring that people receive the complete dose of medication needed. All of our products are manufactured in Oxnard, California and can be tailored to local needs.

**DISTANT TARGET MARKETS.** We go where the needs are most pressing, but where most pharmaceutical companies choose not to go – to developing and emerging markets that are geographically, economically and culturally distant. Other pharmaceutical companies often consider these markets difficult to enter, lacking the purchasing power needed to achieve scale, missing key infrastructure for effective marketing and distribution as well as protection of intellectual property rights. The innovative OAK business model is specifically designed to make market opportunities in countries of Africa, Central Asia, the Middle East, and Central and South America profitable for all involved - both OAK and the local in-country communities.

**LOCAL ENTREPRENEURSHIP.** OAK controls the development of pharmaceuticals, and manufactures and delivers the product as a bulk drug ready for cutting and packaging by our local partners. There are three primary reasons why OAK distributes the value chain between its headquarters in the US and local entrepreneurial partners in foreign target markets. First, by operating in distant target markets, we leverage local knowledge and the ability to tap into local networks in order to reduce start-up time, minimize overhead costs, maximize product acceptance, and create overall economic sustainability. Second, local, independent entrepreneurs

who invest financial and human resources are likely to be more committed and engaged than dependent agents or representatives. Local ownership equals local commitment and accountability. Third, an important factor in long-term success is the improvement in socio-economic conditions in our target markets. We not only want people in our target markets to lead healthier lives, we want them have job opportunities that provide them with dignity and income. We believe that by stimulating local entrepreneurship, we also help to create employment that supports the economic development of the area which is good for sustaining both the local business and our business.

**ALTERNATIVE DISTRIBUTION CHANNELS.** Naturally, we aim to work within existing effective channels of distribution that help our products to be successful. At the same time, we aim to work with alternative forms of distribution including mobile pharmacies or micro-distribution systems in rural areas. These alternative distribution channels are built and maintained with the help of non-governmental institutions (NGOs). One such collaborative project is to build country-wide micro-distribution systems of female entrepreneurs that leverage modern information technology – selected and trained by NGOs.

## 2 THE POWER OF INTERDEPENDENCE

At OAK, we believe in the power of collaboration and commitment over coordination and control. We therefore combine the key elements of the OAK Alliance Model – innovative products, distant markets, local entrepreneurship, and alternative distribution channels in a unique manner that we call interdependence. Interdependence rests on an equitable relationship between OAK and its local partners in which both partners have responsibilities, but from which they also gain tangible benefits that go beyond those in any regular relationship be-

tween a foreign manufacturer and a local distribution partner. Before we enter a market, we identify potential alliance partners who share our vision for bringing high-quality, affordable pharmaceuticals to underserved populations, and who have the complimentary in-country resources and capabilities. Then, in a first step towards implementation, we collaboratively develop an alliance model with a view to local business and economic conditions. This step is based on mutual respect and joint learning. In a second step, we assist our local partners to get the in-country operations ready for business. We work with the local partner to establish the local infrastructure for cutting, packaging, marketing and distributing our products. The physical facility is

planned, designed and constructed as per OAK specifications and local regulations. All the equipment is procured, delivered, installed, and tested by OAK. We also provide initial market plans and template promotional material. In a third step, we design training materials and we assist the local partner in training employees and doing successful test runs. The fourth step focuses on commercial manufacturing and distribution. From then on, OAK increasingly reduces its role, and the local partner becomes fully functional on its own. Ultimately, OAK only delivers bulk roles of oral thin film to the local partner. As mentioned before, each partner in the OAK Alliance Model has benefits and responsibilities, as can be seen from the following table.

	Benefits	Responsibilities
OAK Therapeutics	<ul style="list-style-type: none"> <li>• Access to local knowledge</li> <li>• Fast establishment of a market presence</li> <li>• Risk-sharing with local alliance partner</li> <li>• Performance maximization through local entrepreneurship</li> <li>• Sustainability through commitment</li> <li>• Takes advantage of established in-country marketing, sales and distribution networks</li> </ul>	<ul style="list-style-type: none"> <li>• Contractual commitment / exclusivity</li> <li>• Adaptation of business model to local environmental conditions</li> <li>• Assistance in establishment of world-class finishing and packaging facility</li> <li>• Training of local employees and technology transfer</li> <li>• Delivery of high-quality pharmaceutical and non-pharmaceutical products</li> <li>• Ongoing assistance concerning manufacturing, marketing, and distribution</li> </ul>
Local OAK Alliance Partner	<ul style="list-style-type: none"> <li>• Access to low cost, high-quality, reliable supply of drug products</li> <li>• Raw materials made in the USA</li> <li>• Reduced risk of counterfeiting</li> <li>• Innovation through new drug delivery options</li> <li>• Access to pipeline of new products</li> <li>• Access to OAK technical, operational, and managerial expertise</li> </ul>	<ul style="list-style-type: none"> <li>• Contractual commitment / exclusivity</li> <li>• Investment in building local infrastructure</li> <li>• Cooperation in adaptation of business model to local environmental conditions</li> <li>• Purchasing of high-quality pharmaceutical and non-pharmaceutical products</li> <li>• Compliance with good manufacturing practices</li> <li>• Reporting and assistance in further development of relationship</li> </ul>

OAK even takes on further step towards interdependence – it swaps equity with trusted local partners. When local partners have proven themselves capable of performing well under the OAK Alliance Model, OAK and the local partner exchange shares in each other’s companies. By owning a share in the stock of each other’s companies commitment to and the long-term stability of the OAK Alliance Model is promoted as both partners to the alliance

have a strong and inherent interest not only in their own success, but also in the success of the other.

### 3 THE OAK ALLIANCE MODEL IN PERSPECTIVE

In many ways, our OAK Alliance Model is similar to and yet different from traditional modes of entry

such as strategic alliances, principal-agent relationships, or foreign direct investments as is summarized in the following overview:

	Principal-Agent / Seller-Buyer	Foreign Direct Investment	Development Aid /NGO	OAK ALLIANCE MODEL
<b>Vision</b>	Principal's vision is imposed on agent.	Headquarter's vision becomes the local vision	Donor vision	Shared vision between equal partners
<b>Goals</b>	One-dimensional: Profit	One-dimensional: Profit	One-dimensional: Aid and humanitarian relief	Multi-dimensional: Profit, Entrepreneurship, Employment, Quality of Life
<b>Goal congruence</b>	Low. Principal's goals often differ from agent's goals.	Initially high, later typical head-quarter-subsidary issues	Medium; goals of NGO and local constituents may differ	High; partners agree on vision
<b>Approach to entry</b>	Mostly standardized and instant / focused on performance	Mostly standardized and instant / focused on performance	Spontaneous / focused on immediate help	Adaptive and developmental / focused on learning and capacity building
<b>Complexity</b>	Low in preparation, high in execution	High in preparation, high in execution	Medium in preparation, medium in execution	Medium in preparation, commensurate with development in execution
<b>Business Risk</b>	Medium, depending on degree of investment by principal.	High. Increases with each additional market	Low, as mostly project-based.	Low: Risk-sharing between partners. Risk also mitigated through shared vision and goal congruence
<b>Products</b>	Want-based pharmaceuticals for top-income segments; needs-based pharmaceuticals for all segments	Want-based pharmaceuticals for top-income segments; needs-based pharmaceuticals for all segments	Needs-based Pharmaceuticals for low-income segments	Wants-based and needs-based pharmaceuticals for all income segments
<b>Quality of Products</b>	Whatever sells. Standardized products and long supply chains increase risk of IP theft	Whatever sells. Mostly standardized products and long supply chains increase risk of IP theft	Compliance and efficacy most important	Localized product portfolio. Shorten supply chain and localization reduce risk of pilfering and counterfeiting.
<b>Quality of Local Operations</b>	Beyond control of principal	Depending on balance and intensity of coordination and control	Internal	Local ownership results in local oversight
<b>Price</b>	Both principal and agent work towards maximum profits, resulting in maximum prices.	Less press escalation than under principal-agent-agreements, but higher due to profit maximization goal	Products are free, therefore no market price.	Products are made affordable through combination of foreign and domestic production and focus on affordable drugs and delivery options.
<b>Profit</b>	Both principal and agent pursue profit maximization	Headquarter maximizes return on investment in order to create shareholder value	No profits / charitable	Partners are in symbiotic relationship and agree on level of acceptable profits and profit sharing
<b>Control</b>	Top-Down, performance driven	Top-Down, performance driven	Mission-driven	Participatory, mission- and performance driven. Local partner exerts self-governance based on self-interest
<b>Timeframe</b>	Short-term	Medium- to long-term	Short-Long-term	Long-term
<b>Effects on Employment and Entrepreneurship</b>	Structures already established, therefore low additional effects on both the principal's and the agent's side.	All positive effects are internalized within the Headquarter-Subsidiary Structure	Mostly no significant effects	High. By outsourcing part of the value chain to independent partners / entrepreneurs
<b>Consumers</b>	Most profitable segments in the mass market are targeted, others are ignored	Most profitable segments in the mass market are targeted, others are ignored	No consumers, only aid recipients	The Long Tail. By targeting what are traditionally considered 'poor' strata of the population, people are given dignity, respect, and access to quality of life.
<b>Contribution to Health Issues</b>	Contribution high for those within target group. No solution for society at large.	Contribution high for those within target group. No solution for society at large.	Health issues momentarily addressed; long-term effects questionable	High. By returning ownership of health issues to the local level, local empowerment will address issues in a locally responsive and sustainable way



With so many differences, the OAK ALLIANCE MODEL is distinctly unique. It is more than just a new way to distribute products or to market a company's vision and beliefs – it is central to the success of OAK. It creates opportunities and accountability, wealth and health – globally and sustainably.

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