Early Stage and Discovery Deals:

Strategy, Structure and Payment Terms 2nd Edition

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Executive summary

Today early stage partnering is a core component of both biotech and pharmaceutical business strategy, allowing companies to access promising new and emerging compounds and technologies. To become a successful player within the life science industry it is crucial to understand the changing dynamics of the industry's early stage dealmaking trends.

Dealmaking in the pharmaceutical industry is constantly growing; big pharmaceutical companies are forecast to receive around 40-50% of their revenue from in-licensed products by 2010. The balance of dealmaking activity has also moved, from the later stages of development to the early stages, where deals have not only increased in number but value too. For example in 2006 ChemoCentryx signed a potential US$1.5 billion drug discovery and development deal with GlaxoSmithKline.

Deal complexity is advancing in terms of both financial reward structures and exchange of non-monetary capabilities. Therefore, to obtain a more rounded understanding of valuation and to achieve the maximum benefits of a deal it is essential to consider non-monetary benefits as well as deal values.

Pharmalicensing's revised edition of "Early Stage and Discovery Deals: Strategy, Structure and Payment Terms" analyzes early stage dealmaking trends and discusses the basics of dealmaking structures, covering payment terms and deal valuations. Updated with new data including case studies from 2006 and contracts this report aims to assist and guide leading professionals involved in business development through the complex process of early stage dealmaking.

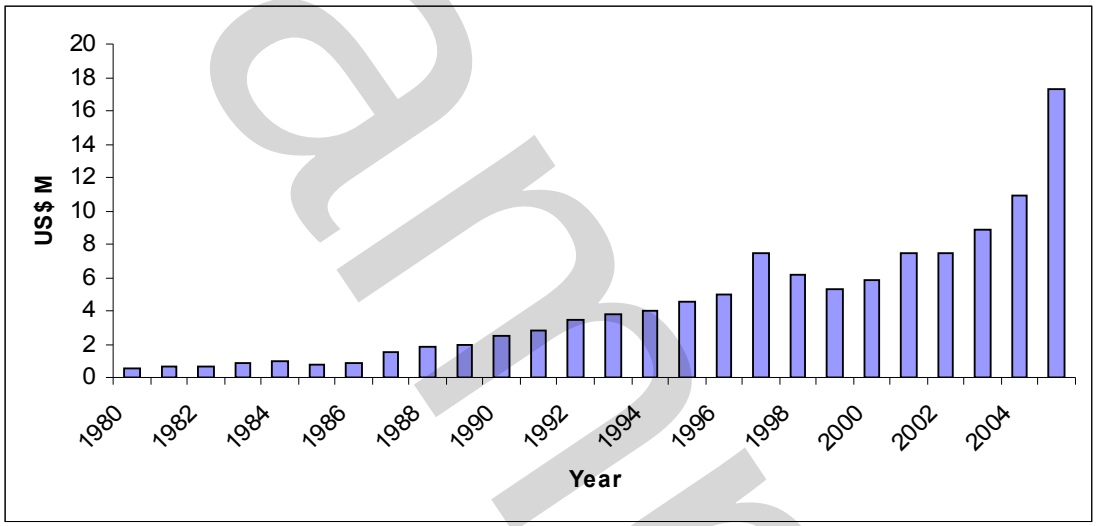
The report educates readers to the benefits of early stage partnering, offers tips for structuring and maintaining the right deal, examines the current partnering model and provides a complete breakdown of the various payment strategies. Providing an insight into why in-licensed projects have a lower failure rate compared to in-house projects, the report reveals the cost differences between in-licensed and in-house preclinical projects.

1. Introduction

Dealmaking in the pharmaceutical and biotechnological industries covers a wide variety of agreements between individuals, companies and institutions from simple late-stage product acquisitions through to complex discovery and target research and development deals. Dealmaking has existed since the beginnings of the industry, since the advent of proprietary medications, patents and entrepreneurs, and continues to be a strong growth area.

The number of life science partnerships has increased significantly over the last 25 years raising US$17 million in 2005 compared to $0.5 million in 1980, Source: Burill & Company, 2006. See Figure 1.

Figure 1. Amount raised from partnering 1980-2005.



Source: Burill & Company, 2006

The increase in dealmaking is due to a number of factors including:

- Increasing numbers of emerging biotechnology and drug discovery companies producing drug concepts but without the resources to:
  - take products through a full development program
  - market products internationally.

- Increasing interest in commercialization of innovations from universities and scientific institutions.

- Biotech investor demand for evidence of continued growth and endorsement of technologies by experienced pharmaceutical companies.

- Increasing costs of developing a drug from discovery to market launch.

- Low success probability (around 10%) that a drug entering clinical trials will be successful.

- Impending patent expiry of blockbuster drugs requiring new formulation and drug delivery formats.

- Consequent deficit in big pharma pipelines requiring in-licensing of products according to a wide variety of sources - large companies now depend on alliances for 25-60% of their pipelines

    - According to AstraZeneca, it costs US$1.5 - 2 billion to bring a drug to market.
    - According to Tufts CSDD, Bayer, Astra-Zeneca, Allergan, Boehringer Ingelheim, and Merck were the five fastest drug development companies in the 2000-05 period; each was able to shorten its development and regulatory cycles by 17 months, compared to average performing drug developers. To assess the fastest drug developers, Tufts CSDD evaluated 104 approved drugs from 29 companies.

In addition to being a growing field, pharmaceutical dealmaking is a changing field. Many pundits have declared the death of the straightforward arms-length licensing deal, and the growth of partnering as the 'new licensing'. These new, more 'intimate' partnerships have advantages that allow the licensor to retain more rights and control over product development, whilst increasing the complexity of the deal.

This report addresses early-stage dealmaking in terms of trends, strategy, structure and financing. The report provides a comprehensive review of payment structures of recent early-stage dealmaking, providing numerous examples in the form of case studies and full deal contracts. Readers will fully understand how much partners are paying and under what conditions to access early-stage product developments.

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