

HEALTH CARE CONSULTING:

Licensing & Acquisition Strategies

New Opportunities Drive Success

The ability to bring to market new differentiated molecules is critical to the success of biotechnology and pharmaceutical companies. Increasingly, financial markets reward firms that can meet the growth challenge and reliably launch a range of new high-demand therapies, through internal development or licensing and acquisition (L&A), reducing their dependence on one or two blockbusters. With FDA approval of new drug entities down to about 20 molecules per year in the last three years – less than half of what it was a decade ago – and a string of failures of potential mega-blockbusters, the challenge for drug developers has never been greater.



ANALYSIS GROUP
ECONOMIC, FINANCIAL and STRATEGY CONSULTANTS

Our licensing and acquisition strategy services include:

- Pipeline development
- L&A deal support
- Market assessment
- Corporate L&A strategy
- Pipeline portfolio planning

Licensing and acquisition are essential means by which manufacturers can secure a pipeline of new molecules – and with tens of thousands of molecules in today's product pipeline, there is no shortage of opportunities to pursue. Notably, few blockbusters were originally discovered in-house – and Datamonitor forecasts that by 2012 the top 20 pharmaceutical companies will derive a full third of their ethical revenues from licensed products (not including outright acquisitions).

HOW TO IMPROVE THE PIPELINE

There are several pragmatic steps biotech and pharmaceutical company managers can take to improve their pipelines.

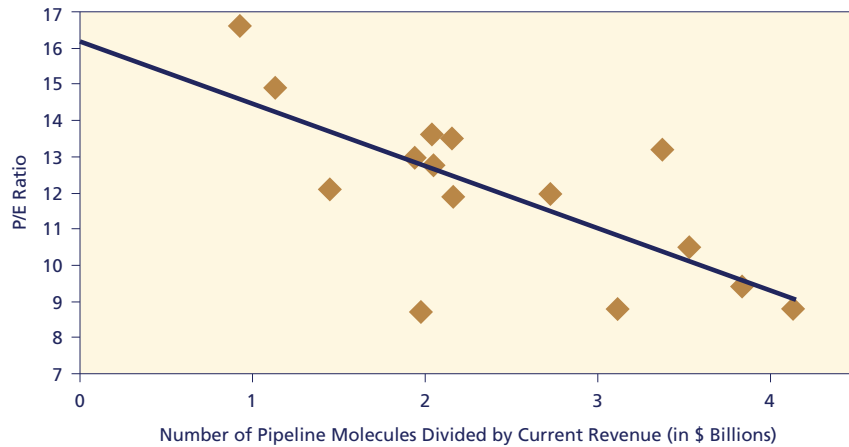
First, find the right fit. The financial markets appear to reward companies that emphasize the quality of drug candidates in their pipeline over the number of such candidates. For example, among the top biotech and pharmaceutical manufacturers, those with relatively fewer candidates (per billion dollars of revenue to be replaced) tend to have higher price-earning ratios (see Figure 1).

A number of factors are important to determining if a potential licensing or acquisition target is the right fit. The drug candidate or portfolio and how it may be valued by markets are crucial, but the most successful L&A opportunities leverage the competencies of both companies involved in the transaction. Pharmaceutical managers can maximize the value of the deal by considering the value proposition for the targeted company, not just the value of the assets being acquired or licensed. A transaction in which the upside is too heavily weighted in favor of the acquirer is less likely to produce a successful partnership or merger over time. Successful biotech and pharmaceutical managers apply the same level of scrutiny to potential new L&A opportunities as they do to internal pipeline products.

Bridge science and business. Science continues to present new opportunities for making targeted market bets – consider, for example, the potential of genomics and new diagnostics in personalized medicine. However, to realize these opportunities, companies have to assess the unmet need and any technical or regulatory risks associated with potential new technologies. Only molecules with a strong clinical rationale or high probability of approval should be explored. Companies must aim for a balanced portfolio of options to reduce risk and maximize the value of their L&A investments.

As Figure 1 suggests, companies with relatively fewer pipeline targets (per revenue to be replaced) have higher P/E ratios.

Figure 1. P/E ratio and relative pipeline size of the top 15 pharmaceutical and biotech companies by revenue



Move early and fast. The L&A market is extremely competitive, particularly for mid-stage product deals. Acting fast to identify, evaluate, and negotiate deals that create shareholder value – and knowing when to step away from deals that don’t – can greatly increase the chance of successfully concluding transactions and developing market leadership.

Managers should also be poised to pursue deals involving drugs early in the pipeline. Historically, pharmaceutical companies have been reluctant to strike pre-clinical or Phase I deals because of the high level of associated risk. However, with fiercer competition for potential opportunities, the reward for earlier moves has become significant – some studies suggest that a rights acquisition at the pre-clinical stage would maximize shareholder value in as many as 85% of cases.

Look globally. Although the U.S. continues to dominate the drug market in terms of both sales and profits, L&A opportunities are global. Nearly half of the current clinical development opportunities originated outside the U.S. Managers need to overcome language and cultural barriers to successfully position their companies ahead in the race for the most promising opportunities.

Assemble the right expertise. Successful L&A strategy and execution require a multidisciplinary team that can factor in rapid changes in the provider, payer, patient, scientific, regulatory, international, and competitive landscape, and implement processes and programs to ensure that in-licensed or acquired products thrive in their new home. Experienced managers can successfully bring together a wide array of expertise and identify potential team members while accelerating the evaluation process of new candidates.

ANALYSIS GROUP LICENSING AND ACQUISITION SERVICES

Our professional staff has significant experience in assisting pharmaceutical and biotech clients in all phases of licensing and acquisition strategy and implementation.

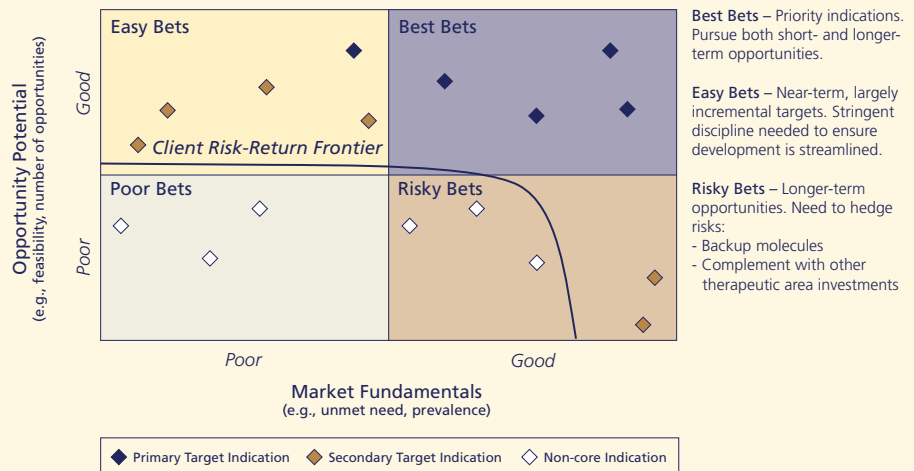
Pipeline development. Pipeline development is all about identifying the right opportunities. Typically it begins by assessing and prioritizing potential options in terms of unmet need and likelihood of success, both at the technical (R&D) level and with regard to regulatory challenges. Our L&A professionals bring end-to-end experience in guiding cross-functional pharmaceutical teams through this process. We draw on our deep familiarity with a wide range of secondary market research sources, and leverage our network of clinical expert affiliates to analyze product pipeline and business development issues, and to add critical perspective on, for example, the likely future value of specific product features.

■ CASE IN POINT

A leading biopharmaceutical manufacturer wanted to explore opportunities to develop its oncology franchise. Analysis Group worked with internal experts as well as leading U.S. and E.U. oncologists to establish and document successive criteria used to filter and prioritize more than 1,000 pipeline molecules.

Based on the criteria shown in Figure 2, we identified a small number of promising molecules and company candidates. The client decided to pursue several of these opportunities to continue to grow its franchise.

Figure 2. Prioritization of therapeutic areas – illustration

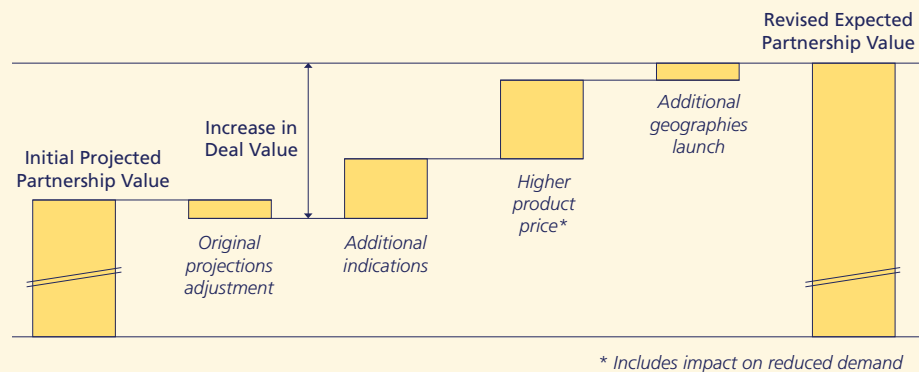


L&A deal support. We assist clients across the entire L&A transaction process, from pre-deal due diligence to deal terms negotiation and post-deal integration, with emphasis on pre-deal analysis of the potential business fit of specific targets. Our staff's extensive experience in pharmaceutical markets helps us quickly identify the value drivers of a deal and structure it accordingly. Our approach ensures clients can make high-quality decisions while moving as fast as possible on new opportunities.

■ CASE IN POINT

A multinational pharmaceutical and medical device company targeted a potential acquisition to provide it with an important strategic position in the cardiovascular market. Analysis Group assembled a world-class panel of clinical experts to explore both the potential applications and the limitations of the target company's products. Our analysis revealed that the acquisition target had not fully exploited market opportunities and had predicted unrealistic revenues by underestimating the competition and pricing trends. Our analysis ultimately showed that despite these issues, anticipated revenues were still strong.

Figure 3. Creating value with enhanced deals – illustration



Market assessment. In considering potential L&A opportunities, clients frequently raise questions such as:

- What are the most promising therapeutic areas to invest in? Which ones are of greatest unmet need? Where is the science more likely to provide a solution within the target time frame? What is the market's willingness to pay now and as cost pressures from payers continue to increase?
- What are the economics of the market for this potential product or type of product (e.g., value, share range)? How are they likely to evolve in the future? What are the implications for L&A decisions?
- What are the risks and opportunities associated with this market? What will the impact of new competition entry be? What options might be available to grow the value of potential investments?

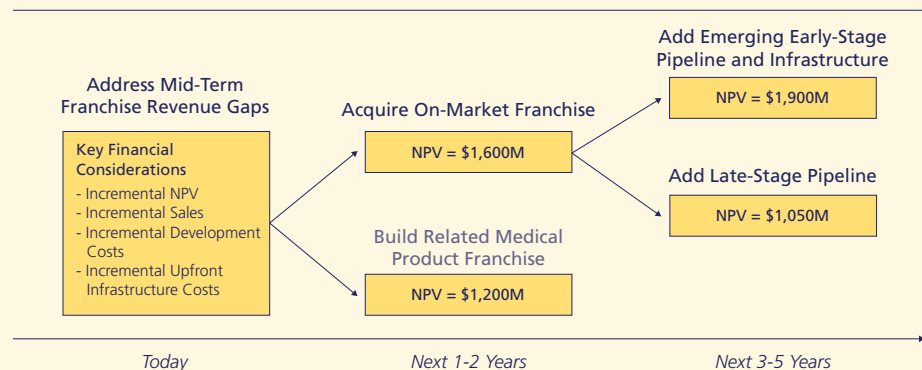
- What strategy should inform the consideration of L&A options? What logic underpins the valuation assigned to a given opportunity or sequence of opportunities?

We help clients answer these questions and evaluate potential new opportunities by gaining a thorough understanding of the science, regulatory/market challenges, and potential scenarios associated with such opportunities. Our experience in the life sciences industries and analytical expertise are of particular value in our approach to primary research with stakeholders and key opinion leaders (KOLs).

■ CASE IN POINT

A global pharmaceutical client was faced with a number of large, long-term infrastructure investment decisions to address a future revenue gap. Analysis Group reviewed existing opportunities, developed likely market scenarios, identified alternative strategic options including deferrable decisions, and evaluated the incremental financial benefits of selected options. Based on our analysis, the company decided to pursue the acquisition of a complementary franchise to grow its existing business in the short term, and to invest in selected capabilities and infrastructure to support the development of an ambitious early-stage pipeline.

Figure 4. Market scenario and opportunity assessment – illustration

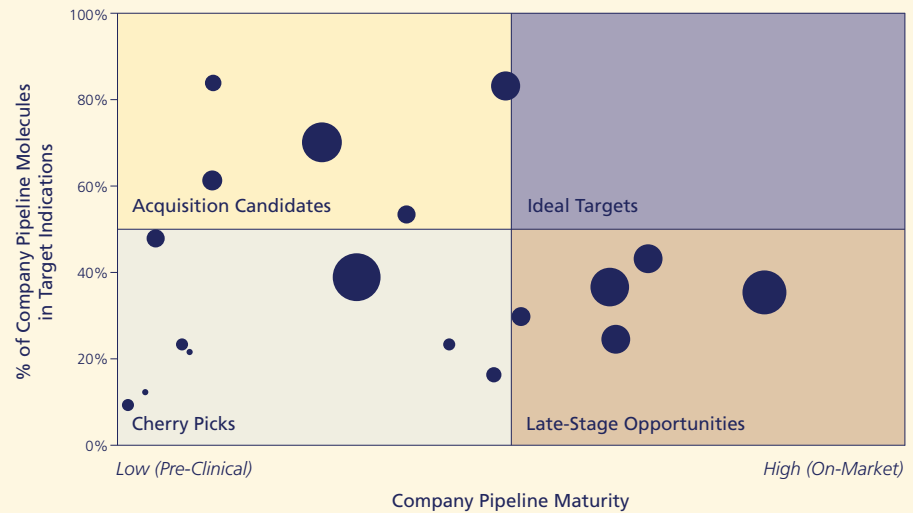


Corporate L&A strategy. We work with clients at both the functional and corporate levels to help successful pursuit of targets. At the corporate level, we look at how a transaction would benefit or extend a company’s current capabilities. We apply advanced analytics and modeling to help management teams assess opportunities quickly and reliably. Often biotech and pharmaceutical companies limit their options by focusing on their current or expected capabilities. By letting current market realities and potential developments drive the assessment, we provide clients with creative options to develop their pipeline and grow shareholder value.

■ CASE IN POINT

A leading in vitro diagnostic company wanted to accelerate the growth of the company through a targeted acquisition strategy. Analysis Group worked with the company's executive team to identify targets with strategic fit that also met stringent economic criteria. We identified, profiled, and benchmarked candidates in order to help the client's business development team prioritize and pursue deals. A number of specific negotiations quickly followed the conclusion of the engagement.

Figure 5. Target company screening – illustration



Pipeline portfolio planning. The demands of trying to bring to market a new major blockbuster often result in the lack of a “Plan B” to execute in the event of a failure. Portfolio planning plays a key role in managing risk for biotech and pharmaceutical companies, both in terms of identifying risk and of determining appropriate options through which to reduce it. Planning also helps companies to manage risk across franchises by balancing investments both within the company and externally.

Analysis Group team members work closely with clients to assess the risks associated with their product pipeline portfolio, determine options to reduce these risks, and improve the performance of their investments. Our approach combines advanced analytics and tools, process facilitation, and expertise in clinical and market strategy development. By providing a solid economic and market-based foundation for the assessment of current and potential investments, we help clients ensure a high-quality dialogue across project teams and functions and minimize the risks of excessive investment and high-impact pipeline shortfalls.

Analysis Group's therapeutic experience includes:

- *Allergy and Immunology*
- *Anesthesiology*
- *Cardiology/Internal Medicine*
- *Dermatology*
- *Emergency Medicine*
- *Family Medicine*
- *Obstetrics and Gynecology*
- *Oncology*
- *Ophthalmology*
- *Otolaryngology*
- *Pediatrics*
- *Psychiatry and Neurology*
- *Surgery*
- *Urology*

Analysis Group helps pharmaceutical, biotech, and medical device companies develop insightful, innovative strategies for licensing and acquisition. We bring rigor and results to every problem we address.

We understand both the commercial and clinical dimensions of the business

- Our teams have worked in marketing, sales, R&D, and L&A strategy across more than 40 disease states and therapy areas
- We have helped clients optimize their investments in molecules at every stage of the lifecycle through and beyond patent expiry

Our analytical skills and industry expertise set us apart

- Our professional staff combines firsthand industry knowledge with a distinctive depth in quantitative analytics, financial evaluation, and outcomes research
- Our affiliated experts, with whom we closely collaborate, include Nobel prize winners, key opinion leaders, and pre-eminent scholars in medical intellectual property, drug marketing, finance, and health economics issues

For more information on Analysis Group's licensing and acquisition services, visit www.analysisgroup.com or contact Managing Principals Edward Tuttle (650-463-2702; etuttle@analysisgroup.com) or Brian Gorin (617-425-8451; bgorin@analysisgroup.com), or Vice President Christian Frois (617-425-8304; cfrois@analysisgroup.com).