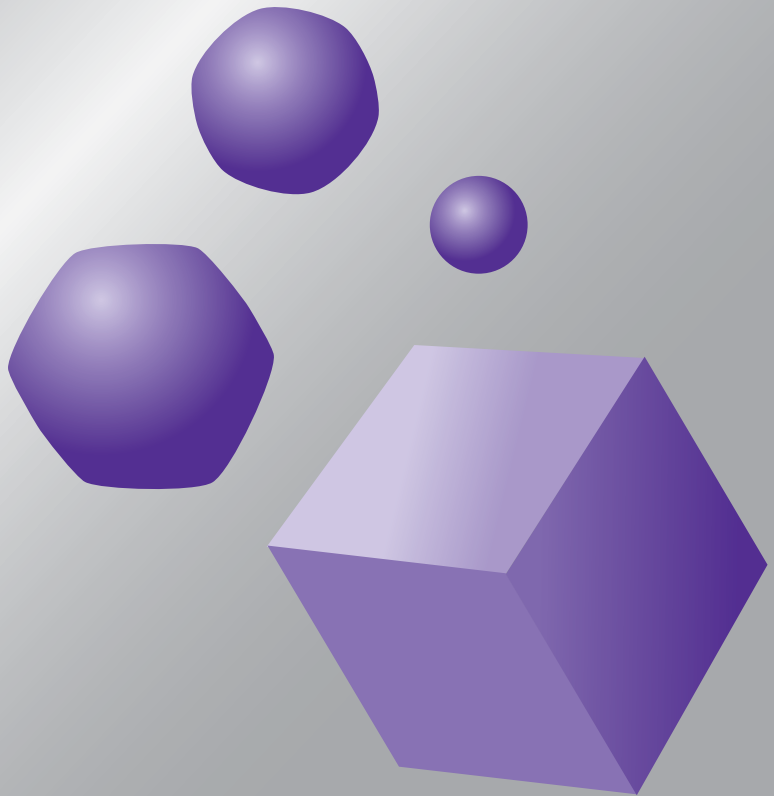


A NEW Report from PharmaDeals

# Pricing and Reimbursement Risk and Opportunity in Pharmaceutical Deal Making



**PharmaVentures**  
Experts in deals and alliances

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**PharmaVentures Ltd**

Magdalen Centre  
Oxford Science Park  
Oxford OX4 4GA, UK

Tel: +44 (0) 1865 784 177

Fax: +44 (0) 1865 784 178

Email: [enquiries@pharmaventures.com](mailto:enquiries@pharmaventures.com)

[www.pharmaventures.com](http://www.pharmaventures.com)

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# Summary

**“Understanding the world in which the customer operates and taking steps to bring your new product into that world with the customer’s workload in mind can enhance the adoption of new drugs.”<sup>1</sup>**

This report will focus on the critical application of the challenging political and market environment within the specific context of pricing and reimbursement (P&R) in the process of deal making. The in-licensing of new drugs has increased dramatically over the past 30 years. As deal making has intensified, the nature of deals has changed and issues such as market dynamics and the uncertainty around future pricing have increased in profile and can impact licensing deal valuation.

Where once a licensor would expect its new licensee partner to take responsibility for price setting and price expectations, now both parties need to increase their focus on the key price limitations that impact the deal value.

Valuation in deal making is not an exact science. The message coming clearly from the pricing and reimbursement dynamics is that traditional models need frequent revision. Health economic considerations that drive reimbursement decisions will play an increasing make-or-break role in new drug planning. As deal making for in-licensed drugs grows in importance, so smarter deal making will become vital to the efficiency of the pharmaceutical business. P&R awareness is integral to that smarter deal making.

This report will teach you the key P&R drivers that shape tomorrow’s market. You will learn what likely effects will surface from today’s political noise and be better prepared to anticipate product opportunity and maximise future success.

## Overview of the report

*Pricing and Reimbursement Risk and Opportunity in Pharmaceutical Deal Making* covers those essential market changing initiatives which make tomorrow’s drug market different from that of today. Successful deal making has accurate valuation at its heart. Anything that impacts a drug’s ability to achieve in the future a fair and profitable market price impacts its value today. The current market is more challenging than ever before. Payer-driven price negotiation for reimbursement, and cost-containment programmes to control prescribing both challenge the traditional pricing model the industry has used to generate valuable R&D resource to further the search for innovation and better disease control.

The adoption of new ways in assessing value offers industry and payers opportunity to find common ground. Economic arguments will predominate in decision making and should be modelled early in a product’s life and be both visible and valuable to deal makers.

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<sup>1</sup> Kolassa EM, 1998. *Elements of Pharmaceutical Pricing*, Haworth Press, NY.

The report begins with a review of pricing elements, highlighting the role public policy takes in all aspects of pricing. An overview is given of the current deal making environment in Chapter 1, identifying significant trends in deals and the challenges these trends put on deal valuation. In Chapter 2, the risks associated with these changes are analysed. It examines the current growth in deal volume and value, and questions the traditional risk models used.

The current P&R market is outlined in Chapter 3 with in depth analysis of political initiatives to control drug pricing. The new Medicare part D programme in the US is detailed along with the controversy and implications of drug pricing proposals aimed at controlling public spending on this new and very politically sensitive initiative. Chapter 4 looks at the impact biotech drugs have had on the market to date and the future pricing opportunities and limitations these high price agents have in store. High price biotechs also characterise the specific markets accessed by orphan drugs. Chapter 5 analyses the past and present causes of today's orphan drug concerns and pressures and extrapolates these issues into a more cost-conscious future. The benefits of extended patent protection for paediatric drugs are reviewed in Chapter 6 along with the implications for future pricing strategies. The field of pharmacoeconomics is covered in detail in Chapter 7. This 'fourth hurdle' represents a significant challenge to conventional pricing strategies yet holds the key to a successful deal and to a value-based viable revenue stream for many new drugs. Advice to dealmakers on benchmarking, what to look for and where to find help is covered in Chapter 8. Benchmarking can give real life objectivity to academic valuation exercises and can bring insight on potential partners as well as product therapy comparisons from unexpected sources. Finally, Chapter 9 gives detailed advice to deal makers on valuation components and future drivers of value.