

Strategies and Tactics for Successful Partnering



PharmaVentures
Experts in deals and alliances

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This publication has been prepared by PharmaVentures' consultants and business analysts



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Executive Summary

Strategies and Tactics for Successful Partnering is a practical guide to the successful partnering of biotechnology and pharmaceutical projects. It provides you with in-depth insights into all the different stages of the partnering process and answers key questions such as:

- Why is partnering so important?
- What issues should I consider before partnering my project?
- How do I find a partner?
- What is the best way of presenting my partnering opportunity?
- What is the best way of presenting my company?
- How should I value a partnering project?
- How would I negotiate a deal?
- What due diligence do I need to do?
- How do I manage the partnership after the deal is signed?
- What should I do if the partnership isn't working?

This report discusses these issues and many more, and includes hands-on advice on how to complete each of these activities. This includes directing you to appropriate resources – including commercial databases to identify potential partners, and relevant websites – and providing detailed guidance on how to complete each activity. For example, in addition to discussing what confidential and non-confidential material should be prepared to partner a project, it also outlines in detail what each of the documents should contain.

An overview of the partnering process is included so that if you are less familiar with this area, you can understand the steps that are involved in partnering a project and how these may vary between different companies. The experience of partnering with a big pharmaceutical company can also be quite different from partnering with a small biotechnology company and there are specific chapters



providing insights on how the partnering process works in each of these types of organisation, and how you can work best with each of them.

A key element in the production of this report has been the completion of a series of interviews on partnering with senior managers from the pharmaceutical and biotechnology industry. All the interviewees are actively involved in partnering projects for their companies and work in a range of functions, including licensing, alliance management, country management and finance. Each chapter includes direct quotes from these interviews. As well as providing you with real-life examples and comments on the activity being discussed in the chapter, they also give useful insights into how this activity is performed in these particular companies.

In an increasingly competitive environment for partnering, in addition to being able to identify partnering opportunities, it is also important for companies to explore how they can attract unsolicited partnering approaches. How to build a reputation as a 'partner of choice' is explored in detail.

Different types of deal will involve different levels of partnership, with some requiring little co-operation once the contract is signed, while others may require the parties involved to work together very closely for many years. An overview of the different types of partnering deal that are available is included, along with the rationale for choosing each type of deal and key points that should be considered.

A section is also included on the specific issues you should consider when partnering technology projects.

Practical guidance and advice are provided on how to negotiate a deal, including a description of the different negotiation tactics that can be used so that you can apply them to your own negotiations, or recognise when a partner is using them. Detailed lists of due diligence questions are also supplied which you can use to support your own due diligence activities, or to prepare for a partner completing due diligence on one of your own projects.

The day that the contract is signed is in reality the first day of the actual partnership. However, too often all the emphasis is put on signing the deal and little attention is paid to how to actually manage the deal post contract or, more significantly, how to build

in elements throughout the partnering process to give you the best chance of successfully establishing and managing the partnership so that it will realise its maximum value. The important area of alliance management is discussed in detail, including feedback from a PharmaVentures' questionnaire dealing specifically with this key activity, and insights into how this function is organised in different companies.

Lastly, the report includes guidance on how to deal with conflict in partnerships. This section contains feedback and suggestions from industry delegates who have attended PharmaVentures' seminars on Managing Pharmaceutical Alliances. In the event that conflict management techniques are not successful, an overview is also included of mediation, arbitration and litigation.

This is a comprehensive report which walks you through all the components of the partnering process. It provides you with a guide on how to complete each activity, which is 'brought to life' by the insightful comments of the interviewees. PharmaVentures would like to take this opportunity to thank all the interviewees for taking part in this exercise and for helping to make this a uniquely practical report. The biographies of all those individuals who were interviewed are included in the following section.

1.6

General Trends in Partnering

If you look at the overall trends in partnering, apart from a slight plateau in 2002, *PharmaDeals Agreements* shows that since 1997 there has been a steady increase in the number of deals completed each year (*Figure 1.13*).

All company types, with the exception of global companies, also showed an increase in deal activity that was broadly in line with the observed overall increase in deal activity over the same time period (*Figure 1.14*).

The importance of partnering was further highlighted by the fact that nearly 50% of respondents attributed at least 10–30% of their revenue to alliances in a McKinsey Pharmaceutical and Biotechnology Alliances Survey in 2003, with 29% estimating that it was more than 50% (*Figure 1.15*).

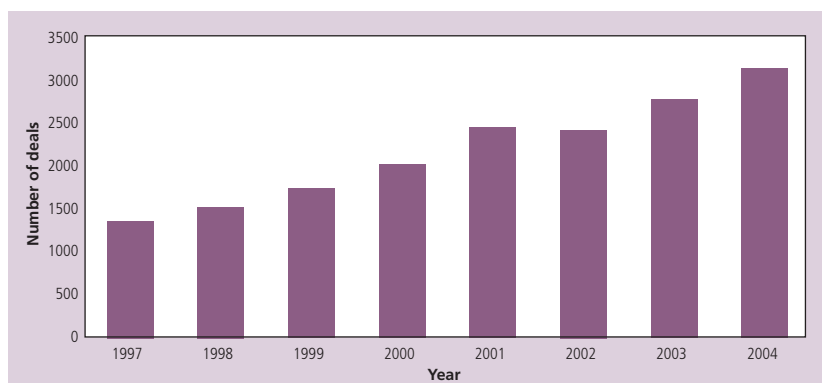


Figure 1.13 – Number of deals, 1997–2004.

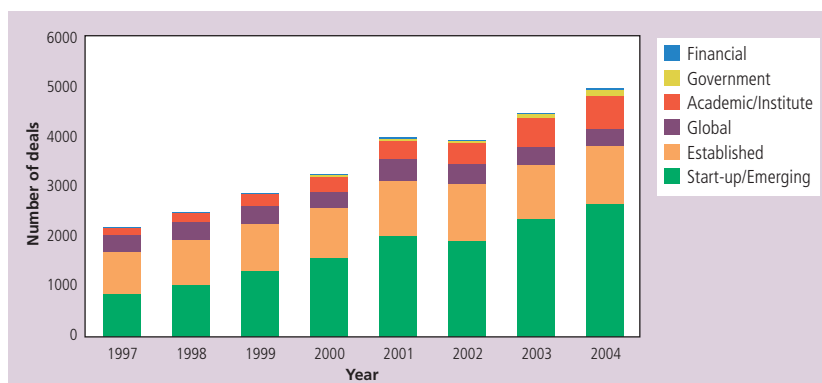


Figure 1.14 – Number of deals by company type, 1997–2004.

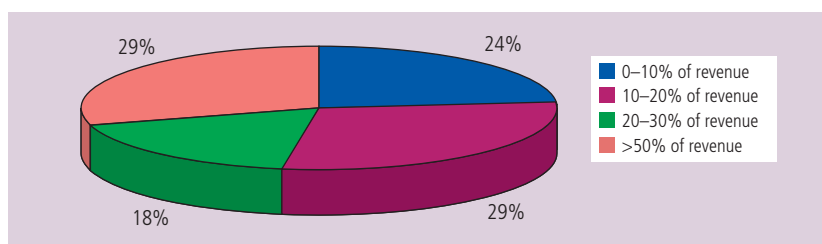


Figure 1.15 – Estimated percentage of revenue from alliances.

Many pharmaceutical companies now openly discuss the importance and priority of partnering in their organisation.

'Lilly will not merge to compete on "size" because Lilly will outgrow all competitors through a constant stream of innovation. Partnerships are integral to Lilly's growth strategy ... not "optional" and not "temporary".'

Michael O. Ransom
Manager, Late-Stage Alliances
Eli Lilly and Company

Some companies have also built their business model around partnerships and have made a conscious strategic decision not to run their own research activities.

'Partnerships are our business. Business development is the 'therapeutic discovery engine' within Shire.'

David Colpman
VP Business Development
Shire Pharmaceuticals Group

However, not only is the number of alliances expected to increase in the future, but also their complexity. A key trend for future success is likely to be the increasing establishment of multi-alliance deals which have options on a number of future drugs and/or technologies. The 2002 deal between F. Hoffmann-La Roche and Antisoma is indicative of such broad strategic alliances. Under the terms of this agreement, Roche acquired options on virtually the entire pipeline of the UK oncology firm. Such a deal heralded an important milestone for the future of European deal making.

'We believe that the objective of licensing is to access external innovation. This could be a single product but generally we want to gain access to expertise in an area that goes beyond one product.'

Nigel Sheail
Vice President
Global Head Licensing
Roche Pharma Partnering