

Finding and Executing Licensing Opportunities

The PharmaVentures's approach to increase quality of the target candidate list and the speed of the licensing process

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It is not surprising that mostly small to medium sized companies seek the help of specialist consultancies to find commercial partners or find in-licensing opportunities. Large pharma are in the attractive position that they get thousands of unsolicited licensing offers from small R&D companies every year and they have ample capacity to conduct due diligence on the promising candidates and partners. Their real concern is whether they can spot hidden gems from less commercially active research boutiques that do not actively search for partners early on before competition sees them. Additionally, large pharma regularly faces the issue of rejecting opportunities that their competition may pick up and in these situations the inevitable internal questions arise from senior executives about the effectiveness of the internal evaluation capabilities.

The key challenges

Small to medium sized companies face two key challenges when they attempt to license in or out innovative products: finding the relevant, interested commercial or R&D partner and getting to a deal that maximises their product's value for both parties. Business development managers generally actively network to collect connections with relevant companies. The more astute also research industry reports, databases, literature to ascertain which companies are active in the target research area or market showing differentiating strengths among competition. However, these sorts of business development activities take much effort and long time; they are costly with little concrete promise of a good deal during this process. Companies can spend long months and even years trying to find a partner and strike a deal even with quality products in their pipeline or cash in their bank accounts depending on whether their perspective is a licensor's or a licensee's. In other words, their search and find process is very inefficient. Industry agents and consultants can help in either scouting for new opportunities creating an army of independent agents for the companies or by applying an intensive, rigorous screening and qualification method that PharmaVentures uses.

Finding relevant partners

The screening and qualifying process must meet the following criteria in order for that to deliver superior results to those of simple industry networking: it must be comprehensive in reviewing all opportunities, consistent in assessing the various opportunities and should be capable of accommodating priority criteria customised to the searching company's strategy. In the core of the first stage of the screening process is a scoring / weighting tool to allow for the consistent and repeated assessment of product/partner opportunities using a broad set of industry data and strategic insight. The data should cover elements of performance (company, product sales/growth, therapy area sales/growth, competition, pricing, reimbursement) and company capabilities (value chain competencies, market access, pipeline / portfolio strengths, existing partnerships). There can be many additional criteria that define the profile of an opportunity; however; their value for the purposes of screening for a long list of opportunities diminishes as the quantity of data required increases and the complexity of analysis grows. Notwithstanding the results of licensing opportunities, the screening process has a vital goal of providing clear and evidence based communication internally within the business development function and with other functions such as those with technical expertise who would conduct the due diligence on the opportunity prior to a deal. Using high quality industry databases that track sales and research activities, corporate data published in company reports and in the deal news flow as well as industry intelligence through primary research in the field with key opinion leaders / high prescribing physicians it is possible to establish a comprehensive map of licensing/partnering opportunities that strategically fit the searching organisations capabilities and goals. The consistent scoring/weighting approach has the benefit of being capable of accommodating industry updates and generate a changing opportunity map.

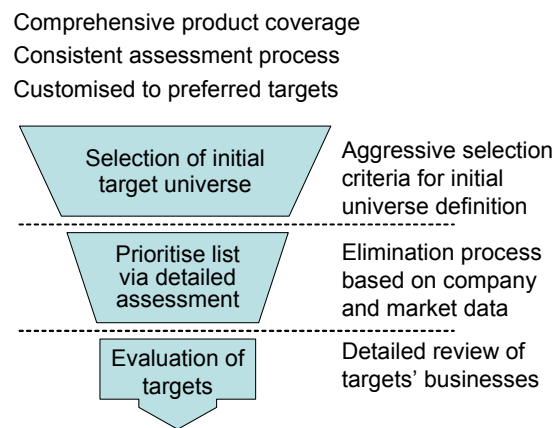


Figure 1. A simple but rigorous screening process is in the core of identifying the right partners

The next step is the qualification process. The prioritised licensing opportunity list shows the target partners that need to be contacted to ascertain their interest in licensing. All too often seeking companies dive into this process unprepared that may impact the value perceptions of the partners and reduces the chances of an interest and a deal. Having a concise value proposition in place is essential. This is documented, non-confidential evidence (information memorandum) of the product opportunity and / or company capabilities with reference to the target partner's benefits given a potential deal. This 2-3 page selling tool allows quick and effective access to business development executives and for them to make informed decisions about further interest. Additionally, this tool combined with an intensive process of telephone calls facilitates a campaign that especially in the case of a company seeking partners for out-licensing can generate multiple interests simultaneously; and competition creates premium of deal value.

Getting to a deal

In the current industry climate, when deal making is at an all time high in values paid out, companies active in partnering have become increasingly sophisticated in their assessment of opportunities. In order to achieve the optimal deal the involved company executive must demonstrate a thorough understanding of the potential market, its size, growth and dynamics, the current and future competition, pricing, regulatory trends and reimbursement obstacles. A multitude of variables define the opportunity and clear evidence supporting the opinion enhances the value proposition and facilitates the negotiations with the other party.

A series of discussions about the validity of the examined variables allows for the smooth transition of agreeing on value, that is the total size of the cake in which each party will share. Of course the cost and risks of development should also be assessed to come to a net present value but that is easier once the opportunity size is established. Subsequently, carving up the cake will depend on the individual preferences of the parties for risks and returns along the timeline of the alliance. Industry consultants can add very significant value to the definition and assessment process of the opportunity that will create an informed negotiating environment. A word of caution for small companies demanding very high upfront payments; larger partners will perceive this as a lack of willingness to share in the development and market risk and this will reduced the size of the value (the cake) significantly. On the other extreme, well endowed biotech companies are increasingly tempted to forgo upfront and some chunks of milestone payments in order to obtain higher potential royalty revenues. This carries significant dangers as the future by definition is uncertain; the partner may terminate an agreement for technical or strategic reasons or the sales potential is never achieved. Therefore, getting significant upfront and success based milestone payments reduces risks of financial return.

In Conclusion

Identifying the right licensing partner and striking an optimal deal is an intensive combination of evidence based research, value analysis, industry networking and well informed negotiations. When this process is structured and comprehensive astute business development executives can get to a deal faster and with a partner that will perform better in the alliance. The support of industry consultants experienced in this process can significantly accelerate the formation of strategic alliances and create more efficiency in the licensing market.