



VENTURE VALUATION
GLOBAL VALUATION SERVICES

The Valuation Experts

Product Valuation for Deal-Making

March of 2021

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Company

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Fundraising companies as well as Investors such as Novartis Venture Fund, GSK, European Investment Bank, 4SC, Arpida / Evolva, Ferring.

Biotech Associations / Governments like CLSA, Medicon Valley, Ausbiotech, Bio Deutschland, BIOTECCanada, Maryland

Overview

- **Licensing Deal trends**
- Valuation of licensing deals
- Questions (in writing)

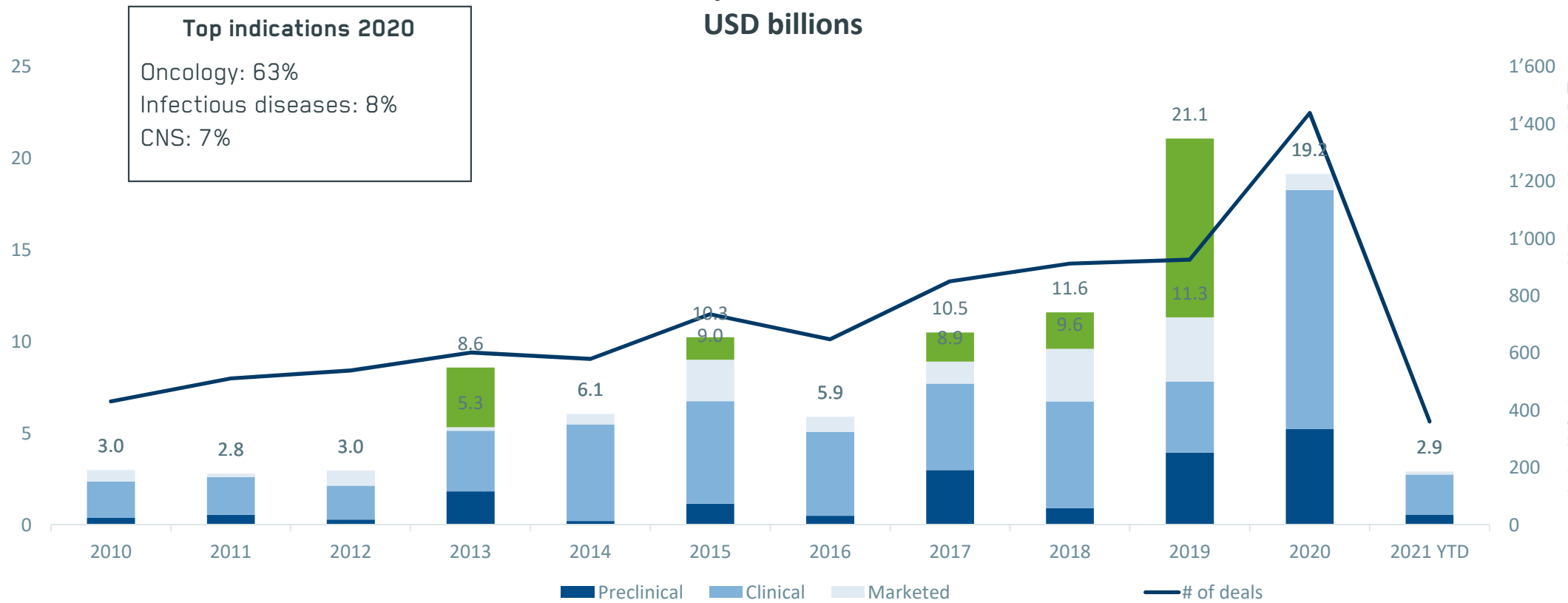
Licensing deal trends

- Overview and current environment
- Deal structure
- Deal size



Licensing deal overview

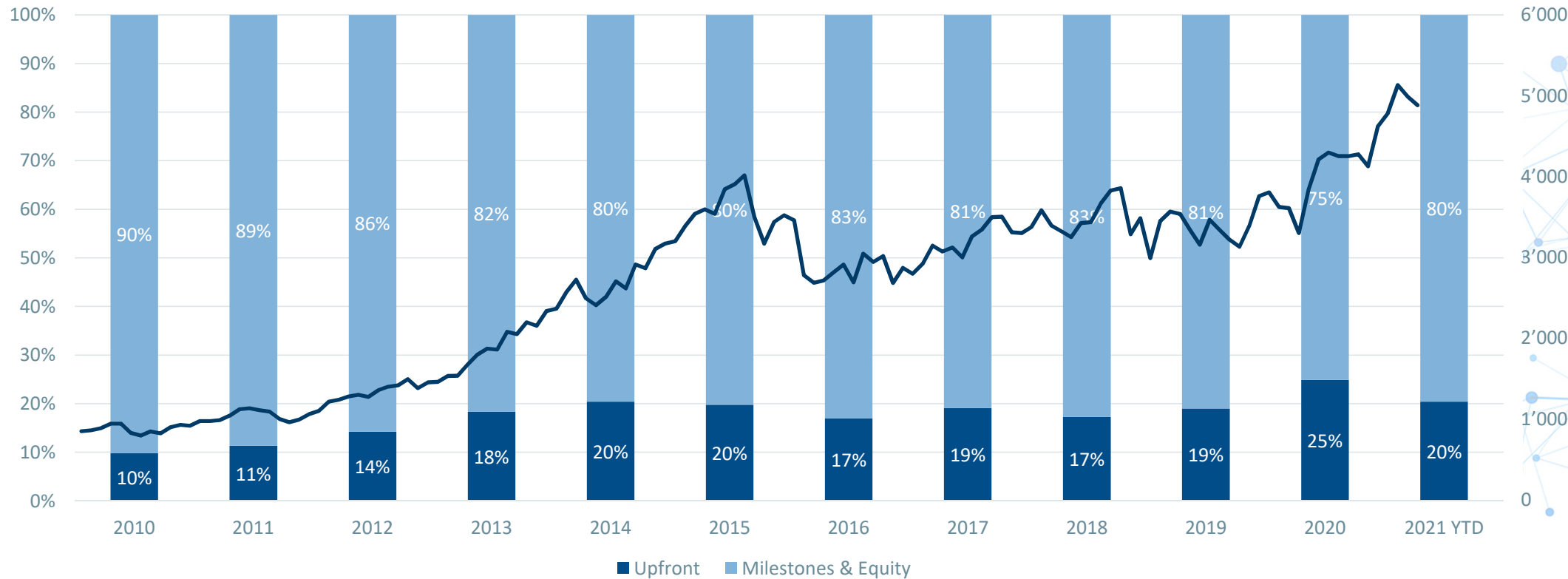
Disclosed upfronts and # of deals
USD billions



Source: Biotechgate.com. N = 8539 (# of deals) and N = 2313 (disclosed upfronts).

Deal structure: Upfront payments

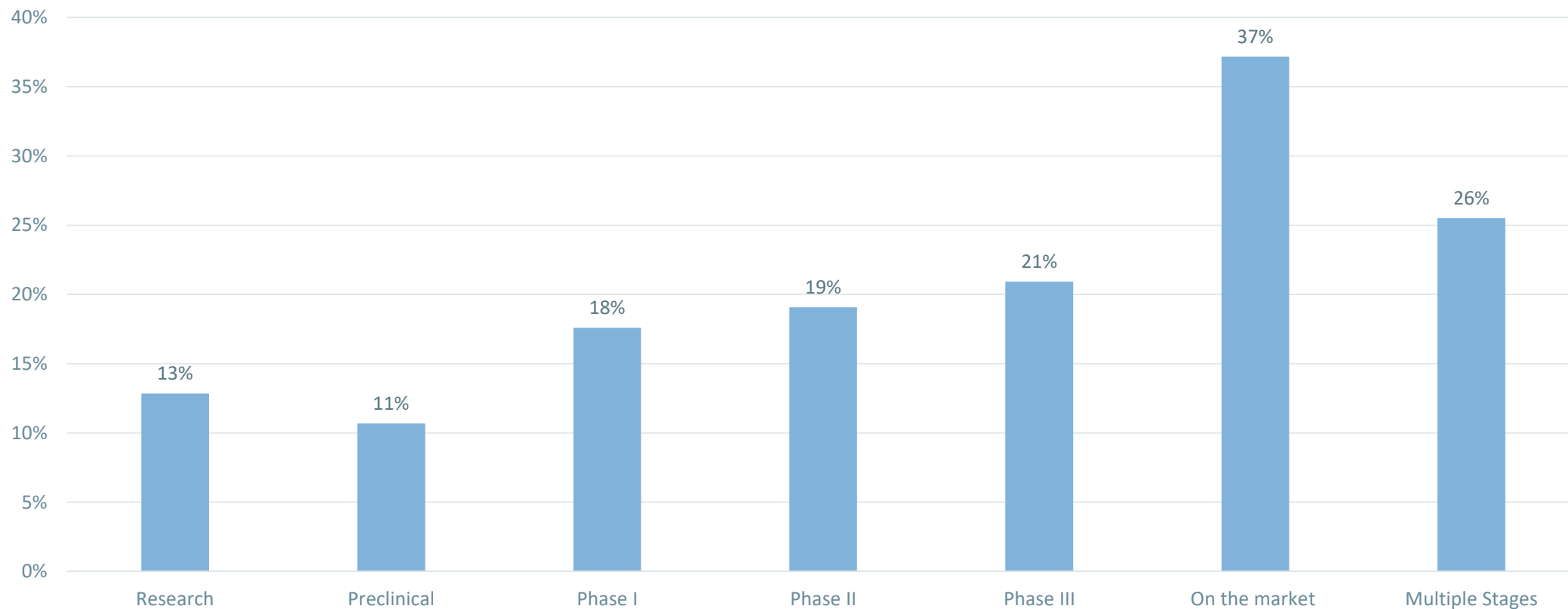
Share of upfront vs additional payments in licensing deals



Source: Biotechgate.com. N = 2989.

Deal structure: Upfront payments

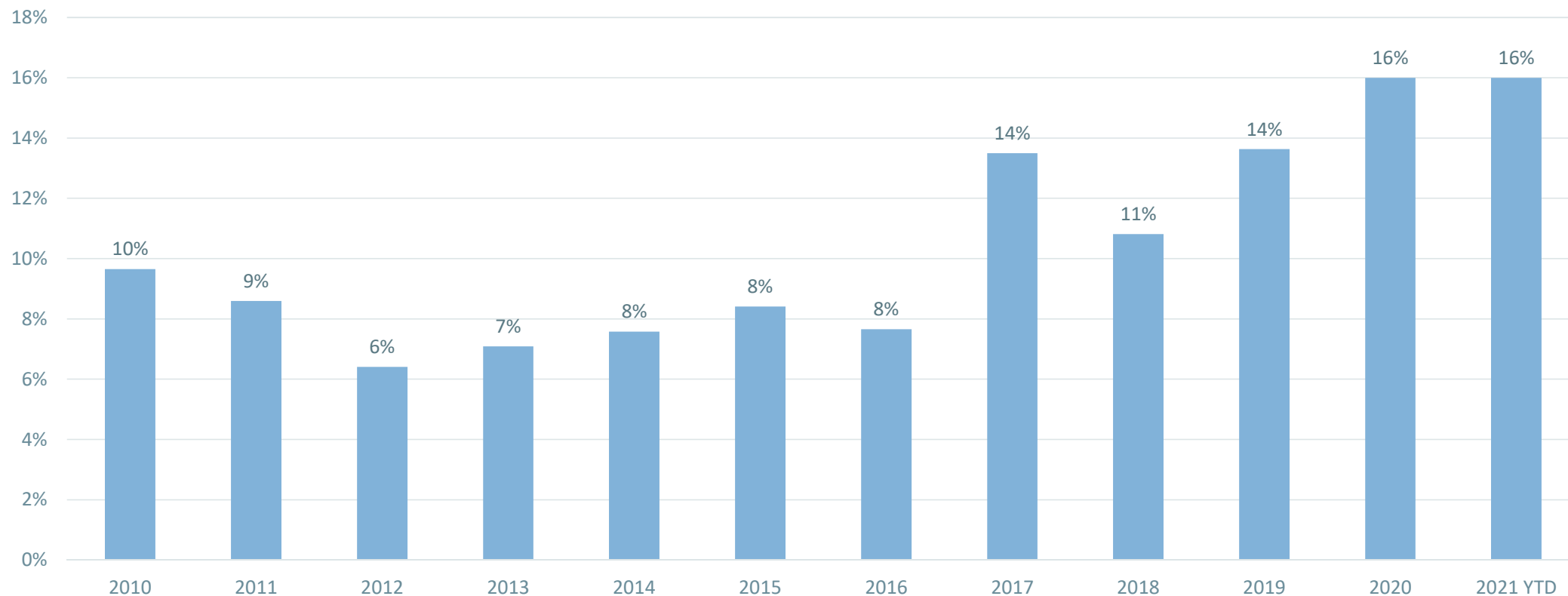
Share of upfront in total potential deal value 2010-2020



Source: Biotechgate.com. N = 2766.

Deal structure: Average royalties

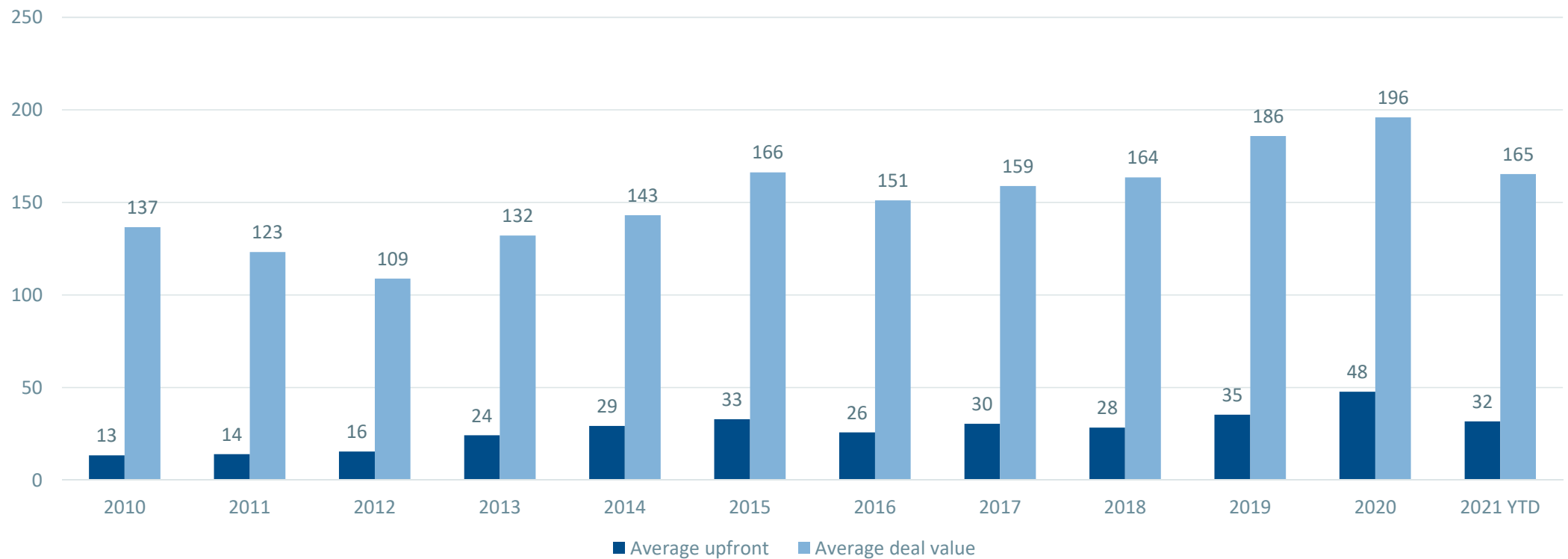
Average disclosed royalty percentages



Source: Biotechgate.com. N = 302.

Deal size: Average upfront and total deal value

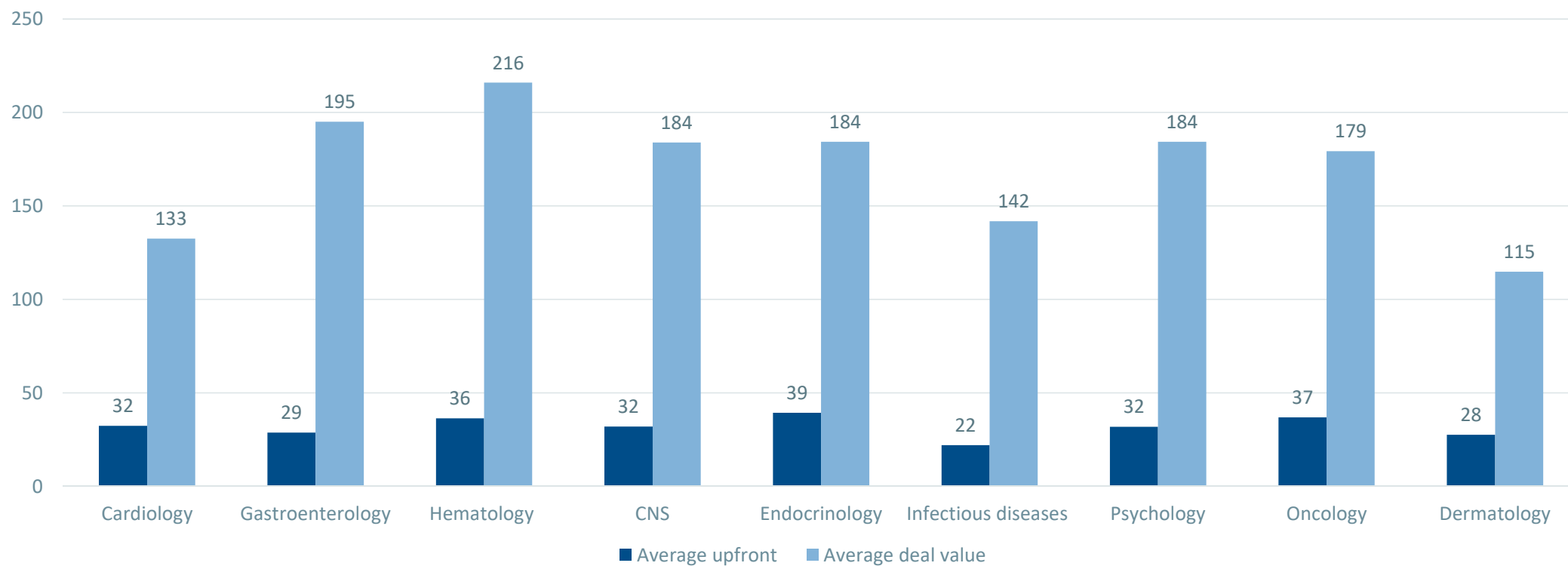
Average upfront and average potential deal value 2010-2020
USD m



Source: Biotechgate.com. N = 2989.

Deal size: Averages in different indications

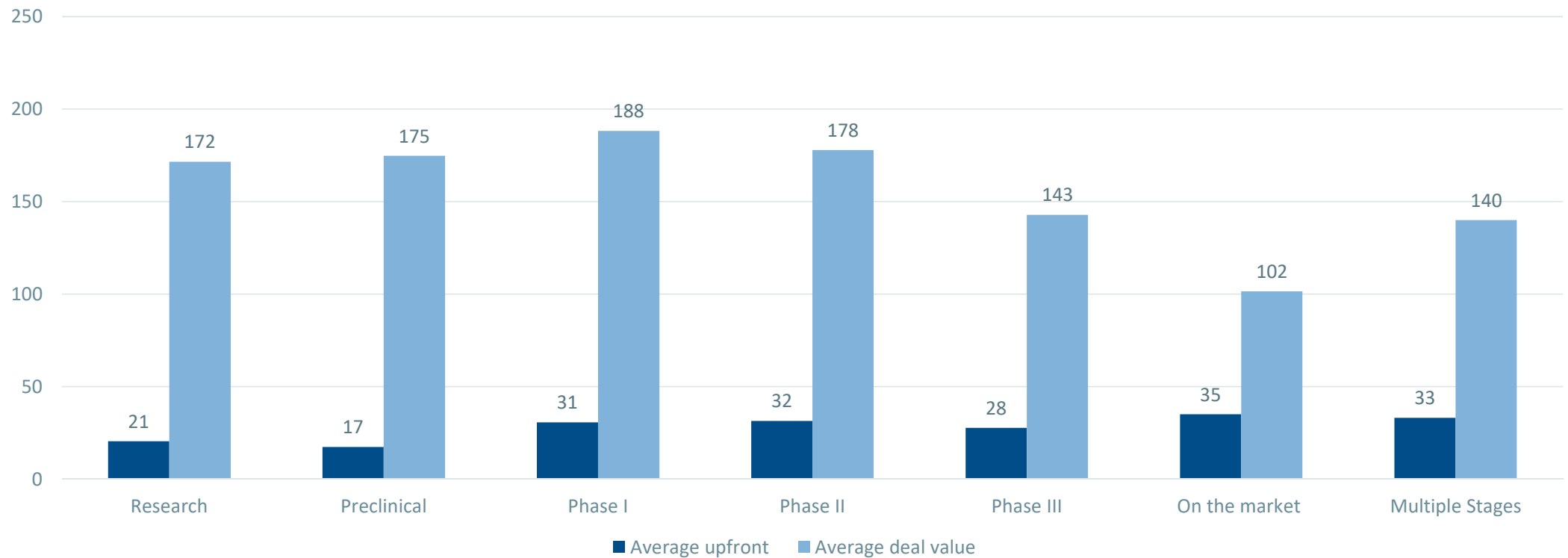
Average upfront and average potential deal value 2010-2020
USD m



Source: Biotechgate.com. N = 2766.

Deal size: Averages in different stages

Average upfront and average potential deal value 2010-2020
USD m



Source: Biotechgate.com. N = 2766.

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Product and Deal valuations



1. Valuation of a product – Why?

- ⇒ Strategic development decision
- ⇒ Licensing deal

2. Estimate deal terms – How?

- ⇒ Value asset/product (rNPV*)
- ⇒ Distribution of value (licensee / licensor)
- ⇒ Benchmark deal-terms
- ⇒ Different deal structures (front- / back-loaded)

* rNPV: risk adjusted net present value

rNPV Valuation

1. Development phase
Product Risk (r)

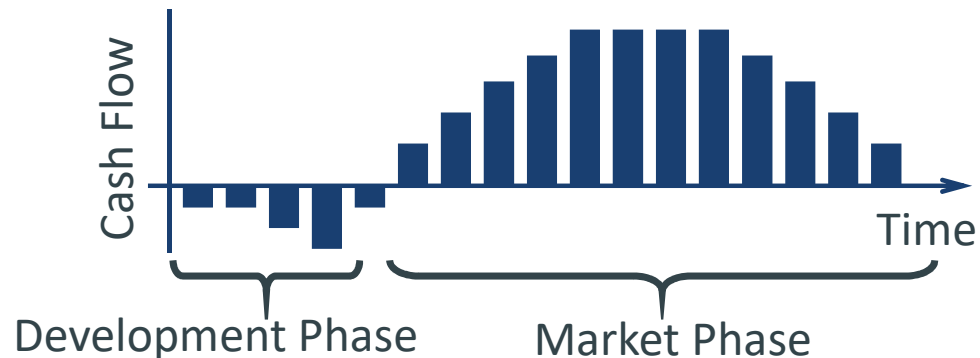
=> investment
=> success rate or attrition rate
(product development specific risk)

2. Market phase
Patent expiry

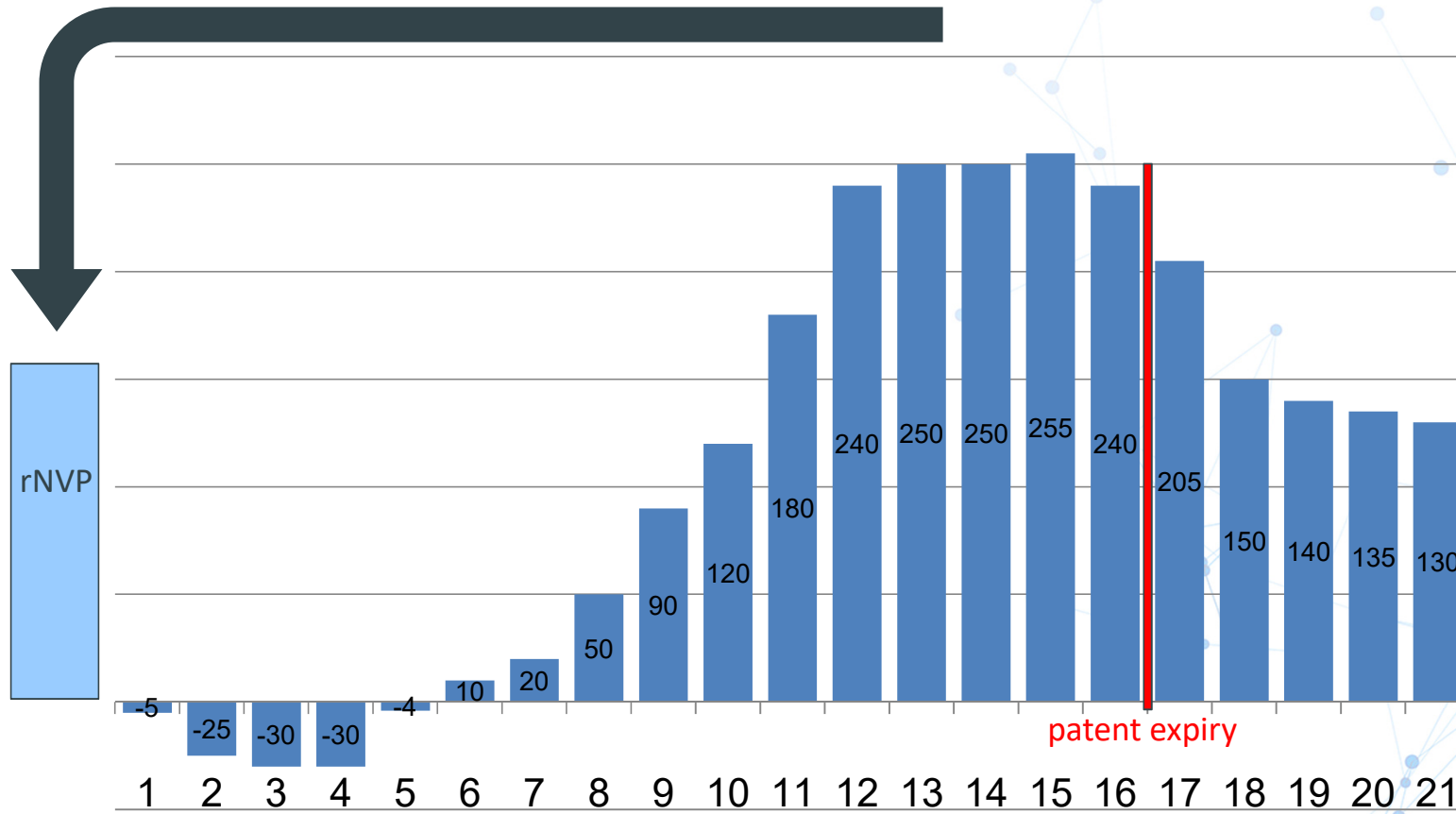
=> revenues
=> end of revenues

3. Discount

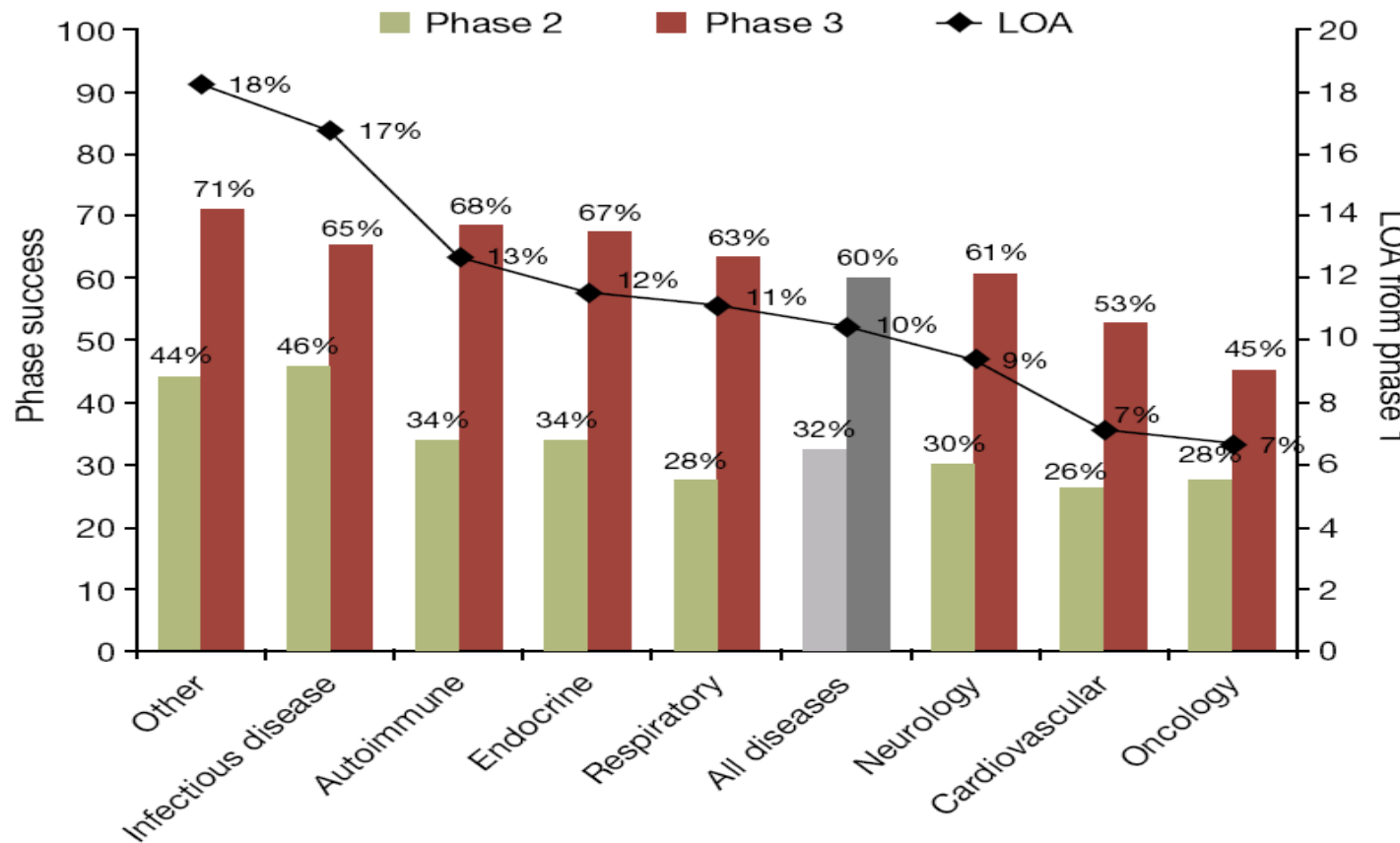
=> **non-product development specific risk (General Risk)**



rNPV Valuation

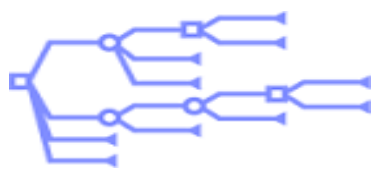


Adjust for product development risk (r)



Source: Nature Biotechnology; Clinical development success rates for investigational drugs; January 2014
LOA: Likelihood of approval

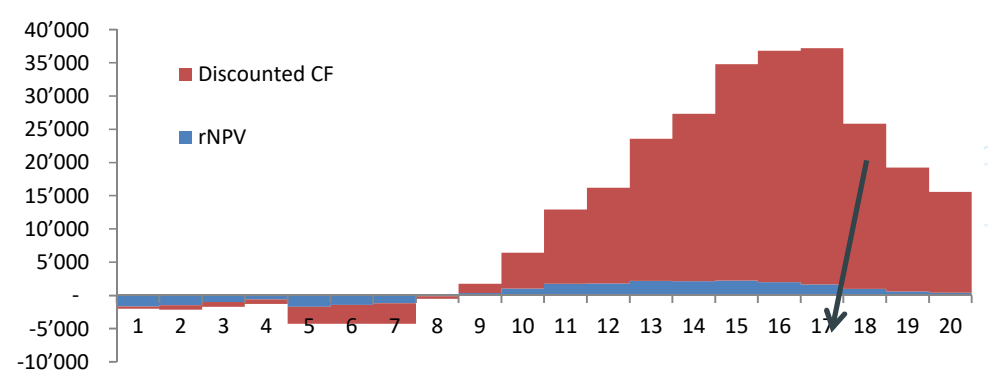
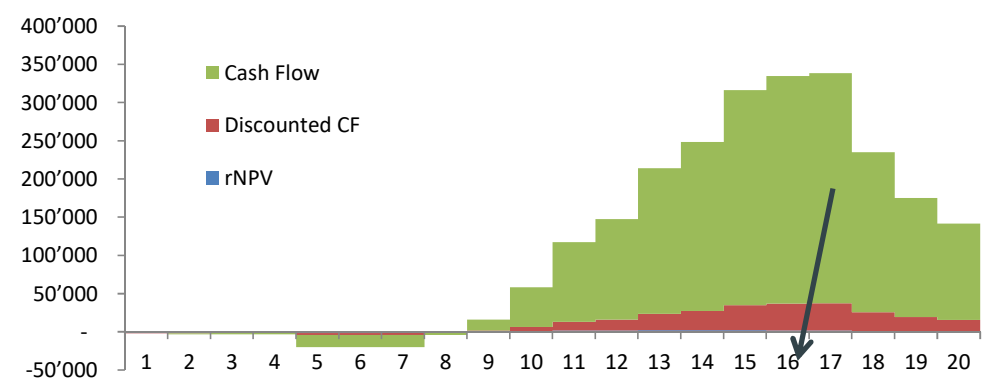
rNPV - Example



- Phase 1 product
- 20% discount rate
- 11% Probability of success (Ph I to market)

⇒ CF: USD 2'269m
 ⇒ DCF: USD 127m

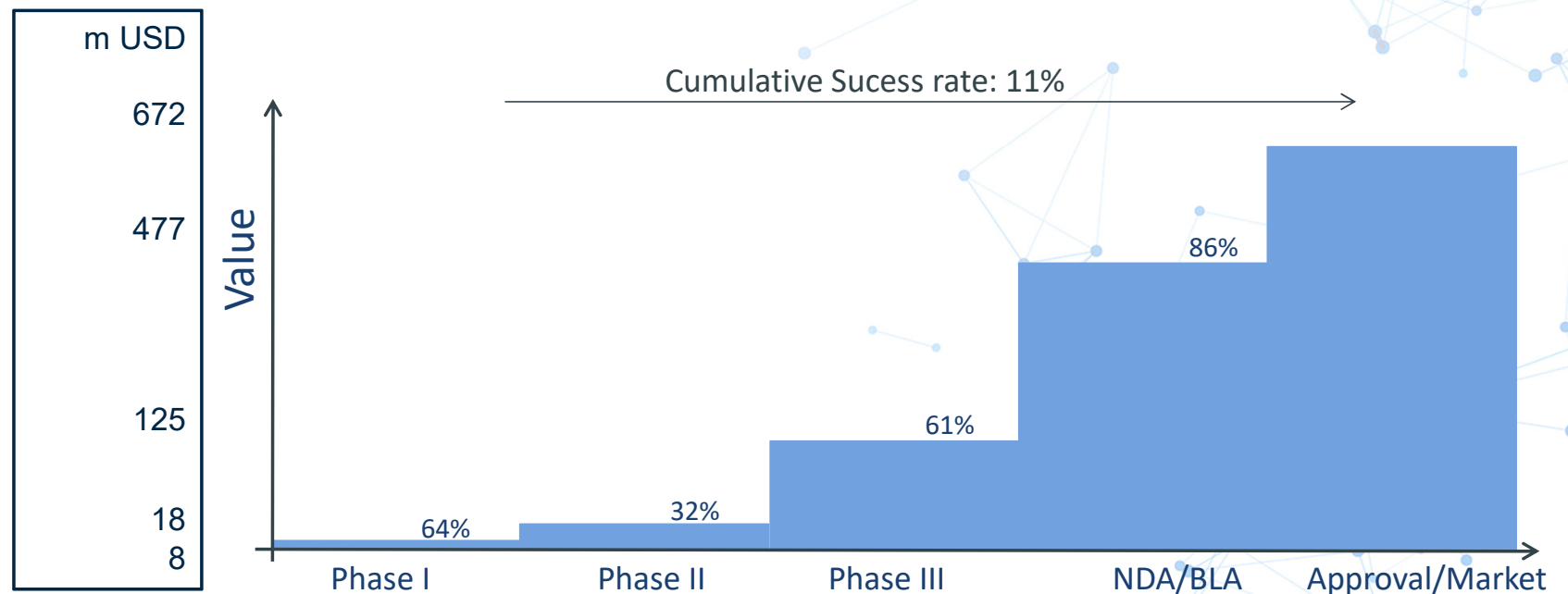
⇒ rNPV: USD 8m



rNPV – Development of the value

The relation between Risk and Value

- Completion of a phase → Direct value increase



Deal Structuring



- Front/ back-loading a deal can heavily influence deal structure

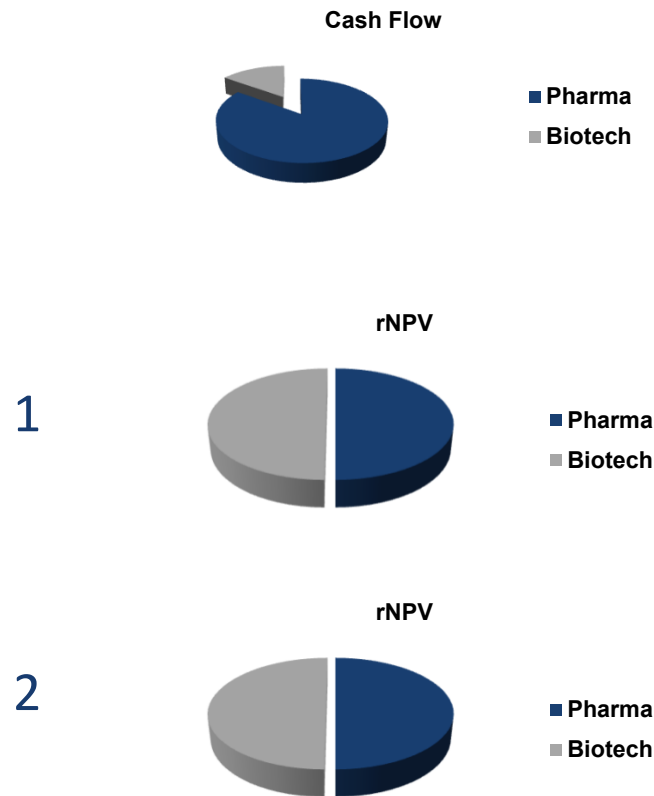
In USD m	Payment of	rNPV* (or up-front)
Up-front	1 m	1 m
Finish Pre-clinical	1 m	0.44 m
Finish Phase I	1 m	70'000
Finish Phase II	1 m	17'000
Finish Phase III	1 m	8'000
Approval / Enter market	1 m	5'000
Royalties	1%	0.70 m

* rNPV: risk adjusted net present value

Timing of payments



- Two very different deal structures can look identical




- Non-discounted, non-risk adjusted

- 25 million upfront
- 300 million milestones
- 5% royalties

- 5 million upfront
- 50 million milestones
- 12% royalties

Conclusion

- Valuation is key to negotiate a licensing deal
 - Value = future potential and risk
 - Increase value: increase potential / decrease risk
 - It's all about the assumptions (rational / source / benchmark)
 - Benchmark deal and assumptions
-
- 



THE VALUATION EXPERTS

Thank you for listening!

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