



Drivers and Barriers for BD Deals

Survey of Business Development Executives

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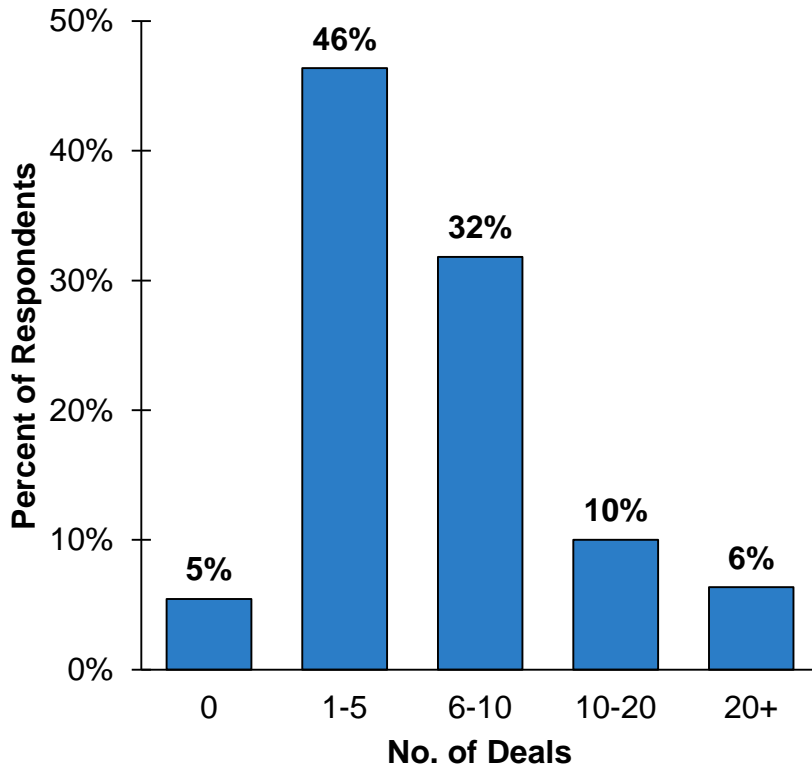
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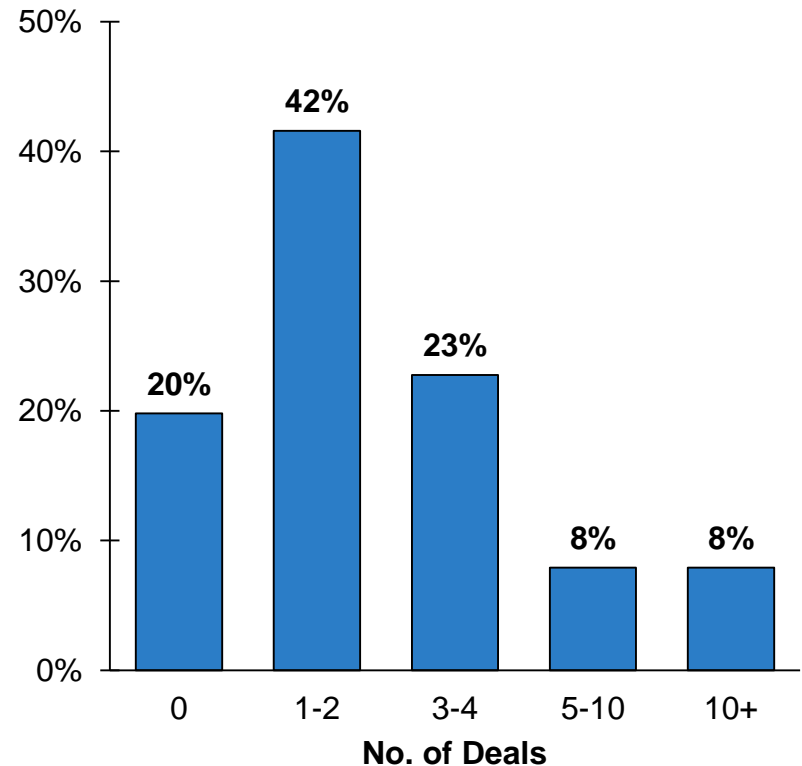
Levels of Deal Activity

A large majority of business development executives reported concluding at least one deal in 2010, with over a third completing three or more.

How many deals did you consider or complete in 2010?



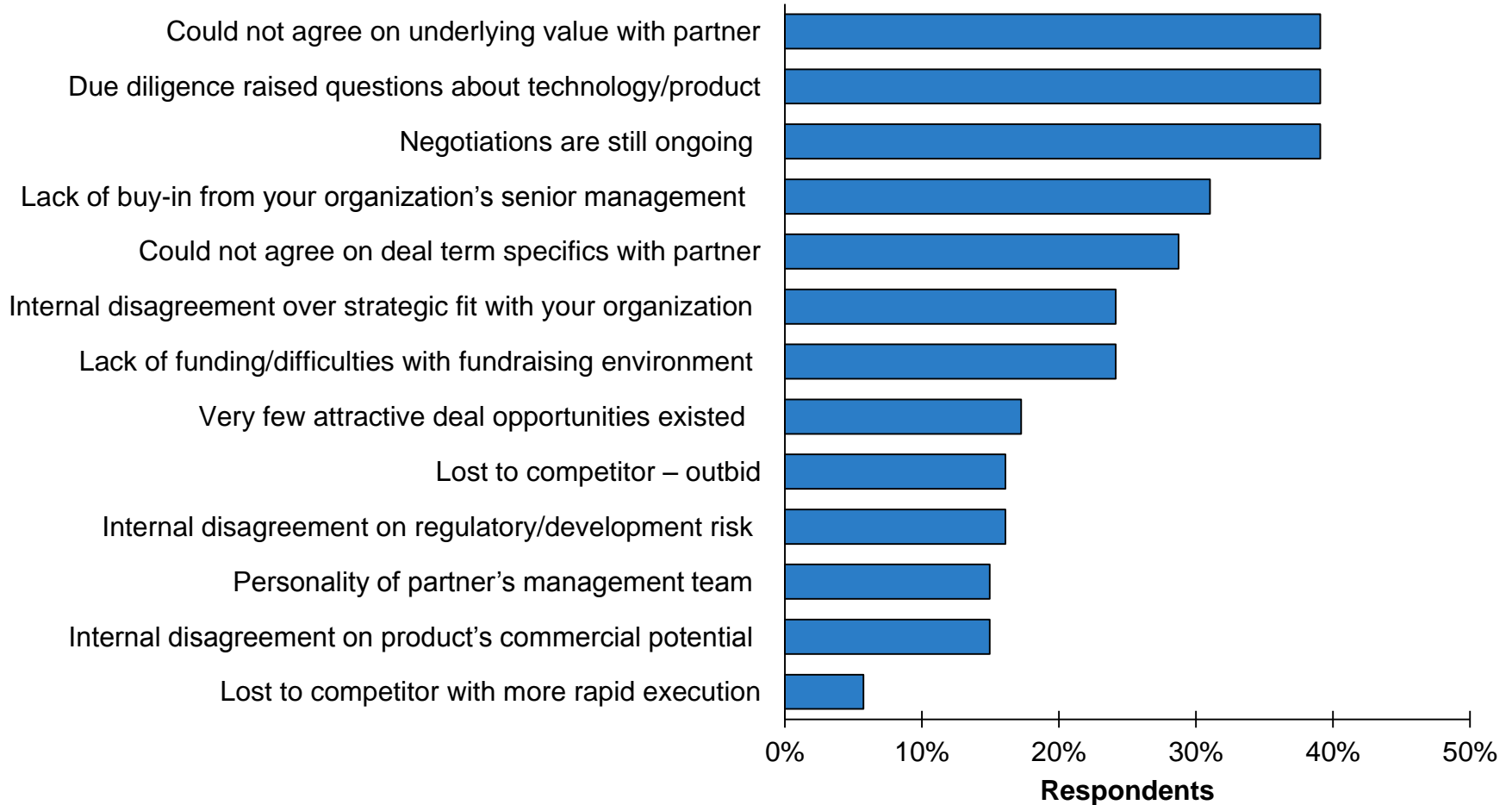
How many deals did you complete in 2010?



Source: Health Advances' survey of business development executives (N=110).

Valuation disagreements and negative diligence findings topped the list of deal killers.

What factors prevented you from doing deals in 2010?



Source: Health Advances' survey of business development executives (N=110).

Gaps in risk tolerance and market expectations were frequent reasons for negotiations breaking down.

Out-licensor Perspectives

- *“Our opportunities are early stage, so the risk aversion is palpable to us.”*
- *“Securing capital has been nearly impossible since 2009. Large companies are shifting a great deal of burden onto the smaller company to get a product to a later stage of development. There’s a higher degree of risk aversion.”*
- *“Our deals are in early/platform stage, and typically start as smaller feasibility deals. The biggest barriers to us (as the technology provider) is in getting sufficient traction and attention within partner companies to get to go/no-go and then to actually execute the transaction.”*
- *“Most companies want to acquire at preclinical development or Phase II, rarely in between.”*
- *“Potential licensees are not prepared to make a serious commitment to developing the products.”*
- *“Large pharma companies now require first-in-class, best-in-class AND a large unmet need in the marketplace before considering the opportunity – perhaps no surprise given the macro-environment in the US and Europe.”*

In-Licensor Perspectives

- *“When dealing with smaller biotechs, over-valuation of product based on unrealistic expectations of time, cost, probability of getting to market and commercial potential once it does are always the most important factors.”*
- *“Disagreement over internal market expectations and the external party's expectation is a huge deal killer – if there is not a general agreement, it is really difficult to structure a mutually agreeable deal structure and terms, especially regarding upfronts.”*
- *“Very few attractive deal opportunities existed. As a specialty pharma company with a narrow focus, there are only so many phase 3 and marketed products available.”*
- *“The most important factor was disagreement on underlying value with partner company. We had different assumptions on the risk and value of the technologies and products under discussion.”*
- *“The biggest obstacles were lack of high quality substrate to pursue and unrealistic expectations, especially by start-up companies.”*

Source: Health Advances' survey of business development executives (N=110).

Feedback on Top Barriers to Deal Completion

Beyond typical issues around disagreement over valuations, respondents emphasized that internal misalignment and failure to setup clear criteria in advance were impediments.

Lack of Planning or Criteria

- *“A lack of clear criteria of what people want or expect. We waste lots of time and energy to get to ‘too early,’ ‘not a strategic fit,’ etc.”*
- *“Having internal buy-in for the deal parameters in advance is key – when there is not alignment I have experienced either loss of bargaining power or the establishment of a difficult partnership.”*
- *“There was internal disagreement on risk, which limited the amount of risk the organization was willing to take on new opportunities.”*

Organizational Alignment

- *“Lack of internal consensus to move forward, causing loss of critical time.”*
- *“There was a lack of buy-in from the organization’s senior management, stemming from change in the Board of Directors leadership.”*
- *“We have a small, lean team and were engaged on a very large project that hindered our ability to act on smaller deals.”*
- *“Lack of good communication between partners. Assumptions were made about the product which may or may not have been true.”*

Technology Assessment

- *“It was a novel and unexpected MOA for the therapeutic indications. Ultimately we could not get agreement on scientific validity.”*
- *“In one case, third party IP was an issue. In another case, top management viewed the technology as too risky.”*

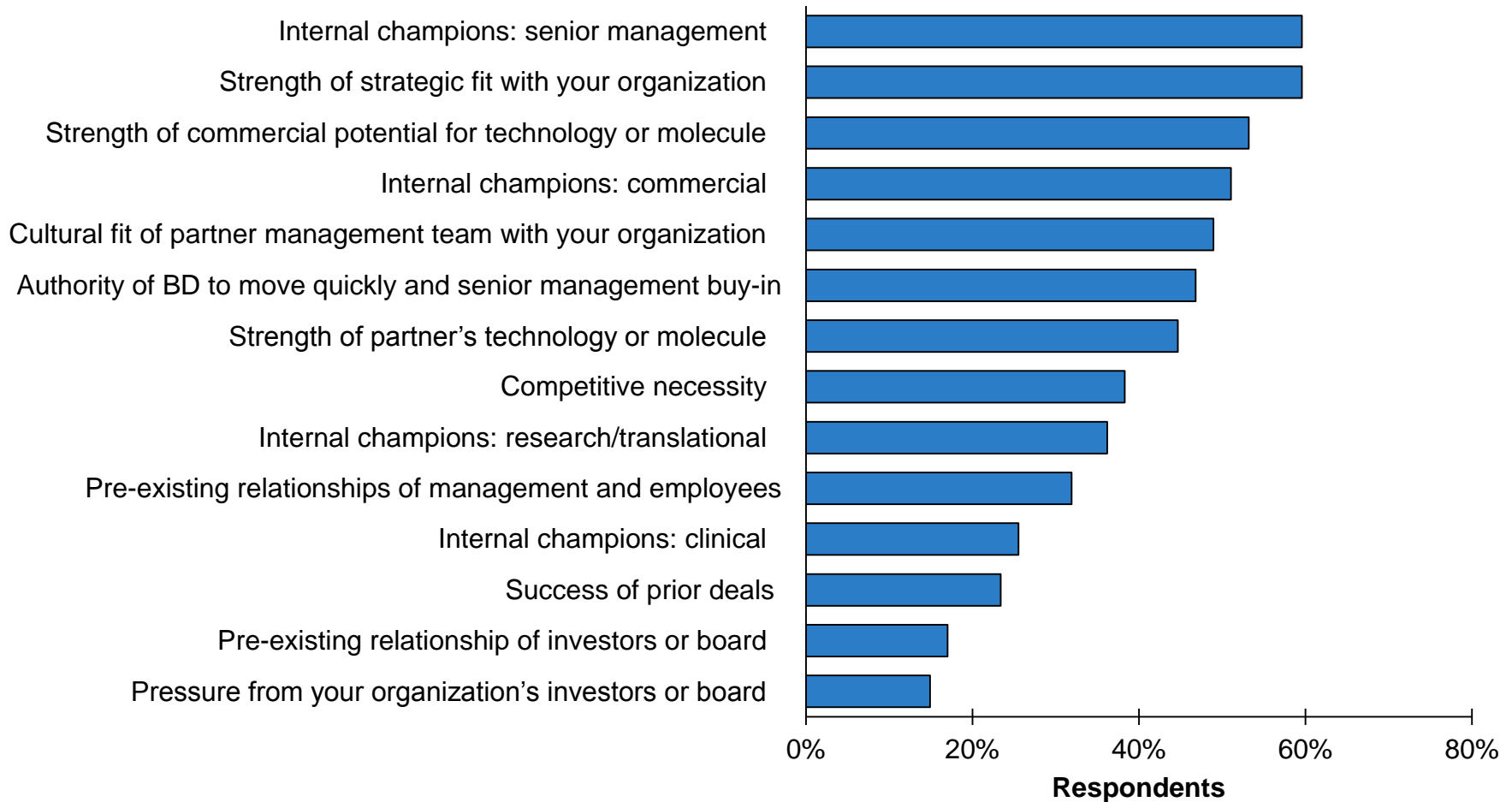
Development and Market Risk

- *“Everyone agreed the drug would be approved, but there were differences of opinion as to what clinical studies would be required for approval and a differentiated label. Of course this led to differences in opinion on the value of the opportunity, but it was the regulatory uncertainty that underpinned the debate.”*
- *“Internal disagreement on partner/target’s commercial potential”*
- *“The due diligence raised concerns around commercial potential and development risk.”*

Source: Health Advances’ survey of business development executives (N=110).

Senior management support and strategic fit were the most important factors behind successfully completed deals.

What factors drove completion of deals in 2010?



Source: Health Advances' survey of business development executives (N=110).

Feedback on Top Drivers for Deal Completion

Respondents cited both strategic reasons and “softer” issues such as organizational champions and relationships as key drivers for deal completion.

Champions and Management Buy-in

- *“Nothing gets done without senior management buy-in.”*
- *“A champion at our partner company is the most important factor.”*
- *“The credibility of internal champions and senior management buy-in.”*
- *“Internal champions at the commercial and executive level.”*
- *“Internal Champions in research and translational.”*

Strategic Fit & Opportunity

- *“The two most important factors were compelling technology with strategic fit.”*
- *“Robustness of the opportunity and a persuasive business case put to global.”*
- *“The strong therapeutic fit with our company was an important driver.”*
- *“The strength of complementary expertise between the two companies.”*

Relationships

- *“The strong underlying relationship with the external party and exciting MOA and clinical data were key.”*
- *“Relationships matter the most. Since we have early stage technologies, if there are internal champions on the in-licensing company side who believe in the science that tends to move things along.”*
- *“Senior management’s long-established relationships make executing deals much easier.”*
- *“Relationship of our PI with a potential partner.”*

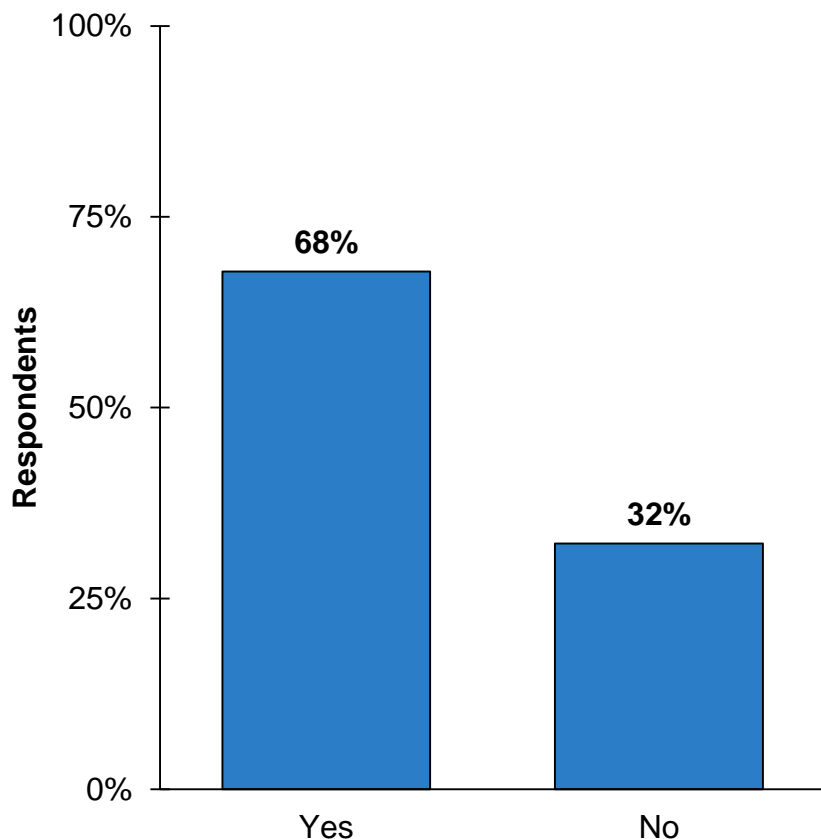
Necessity

- *“Competitive necessity was the most important factor. The company pipeline is sorely in need of new products and technology, which is driving many competitors to seek deals for the most promising products.”*
- *“Competitive necessity. With pending generics, we needed to bring in a new product that with market exclusivity, i.e. no generic competition.”*
- *“Desperation.”*

Source: Health Advances’ survey of business development executives (N=110).

Survey respondents were optimistic that deal activity would increase in the 2011-12 period.

Do you expect to do more deals in 2011-2012 than you did in the past 2 years?



Factors Behind Expected Deal Ramp-Up

- *“To grow as a company”*
- *“Need for midterm products to bridge gap in internal R&D launches”*
- *“Financial strength, management commitment”*
- *“Technology is progressing to later stage and becoming more attractive globally”*
- *“We have built a strong network of relationships with key people within in-licensing partner companies”*
- *“Need to raise non-dilutive money”*
- *“Patent cliff and pending sales decline in our flagship product”*
- *“The environment seems more conducive to getting deals done”*
- *“Owners are looking for an exit which will require building out a more robust portfolio to improve the value-proposition to the market”*
- *“99% of the good ideas are outside of our walls”*

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HEALTH ADVANCES

Founded in 1992, Health Advances is a leading healthcare strategy firm advising clients in the biopharma, diagnostic, device, and healthcare services sectors. Healthcare executives rely on us to help them make confident decisions involving the greatest challenges in the commercialization of medical technologies throughout the world. We are strategists, not brokers, enabling senior management and BD teams to be more successful in an intensely competitive in-licensing and acquisition environment.

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