The Problems with Biotech & Pharma Deal Averages!

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What should my deal financial terms be?

We often get asked by clients where we working to partner their drugs for further development, "What kind of financial terms should we get for an asset like ours?". Boards and managements see the big deals and wonder if that is the kind of deal they should get.

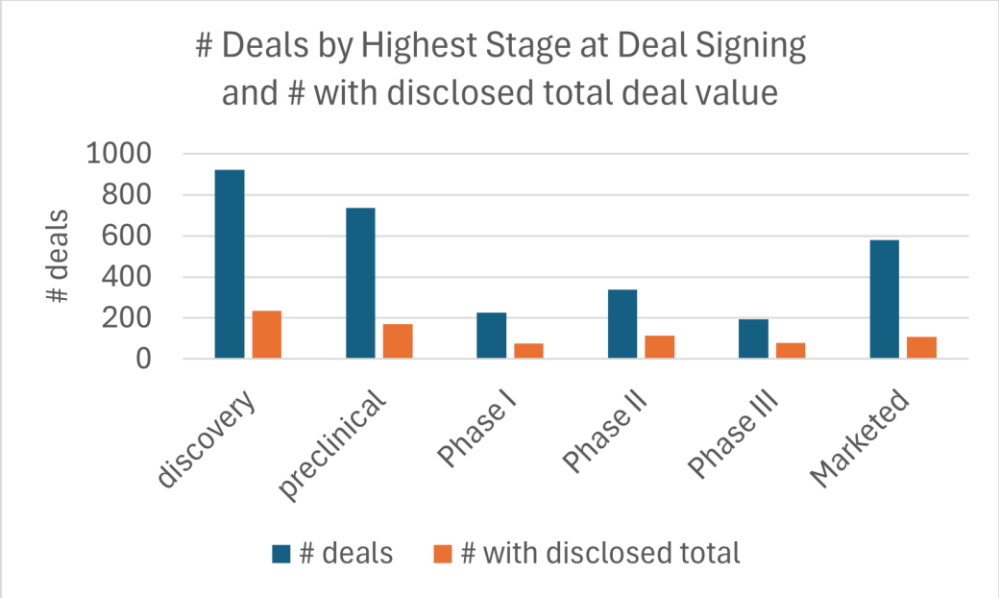
We can turn to published deal averages or pull deal information from GlobalData to try to answer what is a reasonable expectation for deal terms.

We want to look at:

- Completed deals (not announcements that may never get realized).
- Recent deals (to reflect the current deal environment, after the boom year 2021).
- Company to company deals (not university deals where the motivation may be different).
- Deals for assets at a similar stage of development.

Searching using these criteria, we bump into our first problem.

Problem #1. The "true" averages are not knowable. We only see deal terms for a minority of the deals signed.

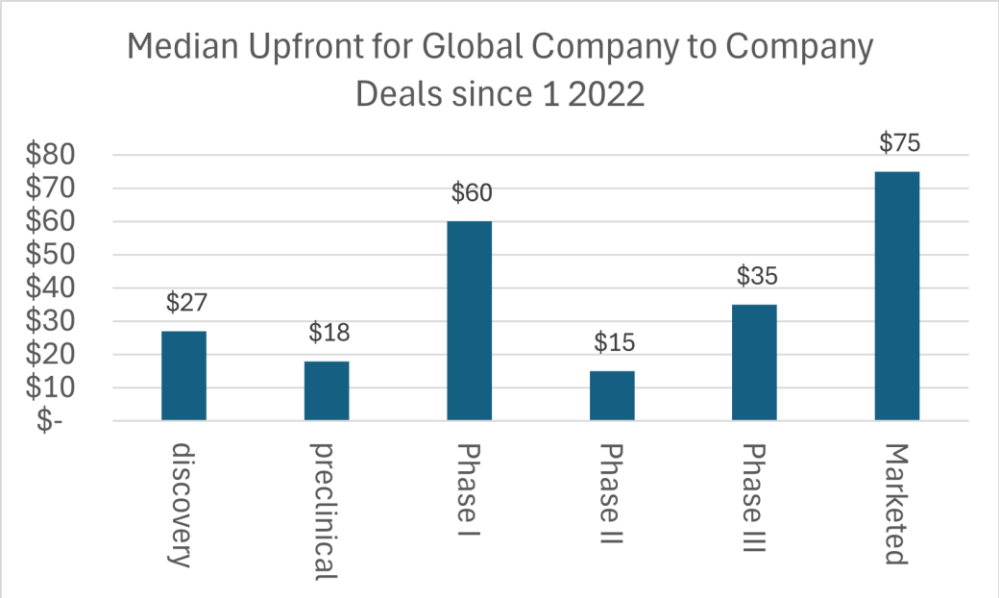


We can assume that the "true" averages are lower because the announced deal numbers are disclosed because either

- they are material to a US public company (and must be announced) or
- they are worth bragging about.

Problem #2. Some of these deals are for smaller territories and some are global deals-- we are comparing "apples and oranges".

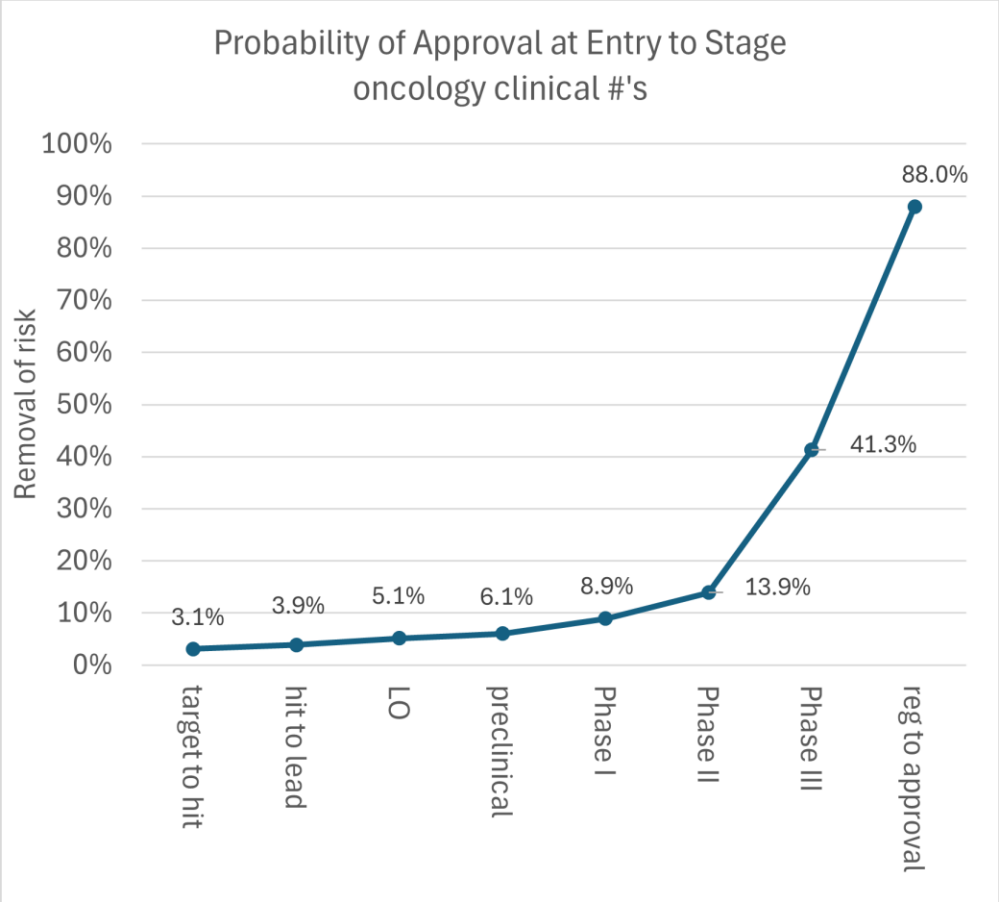
We can limit our search further by only looking at global deals since 2021, licensing or partnering, company to company, by stage and see the median upfronts and totals (below).



Problem #3. Do we really believe that Phase I assets are worth more than Phase II or Phase III assets?

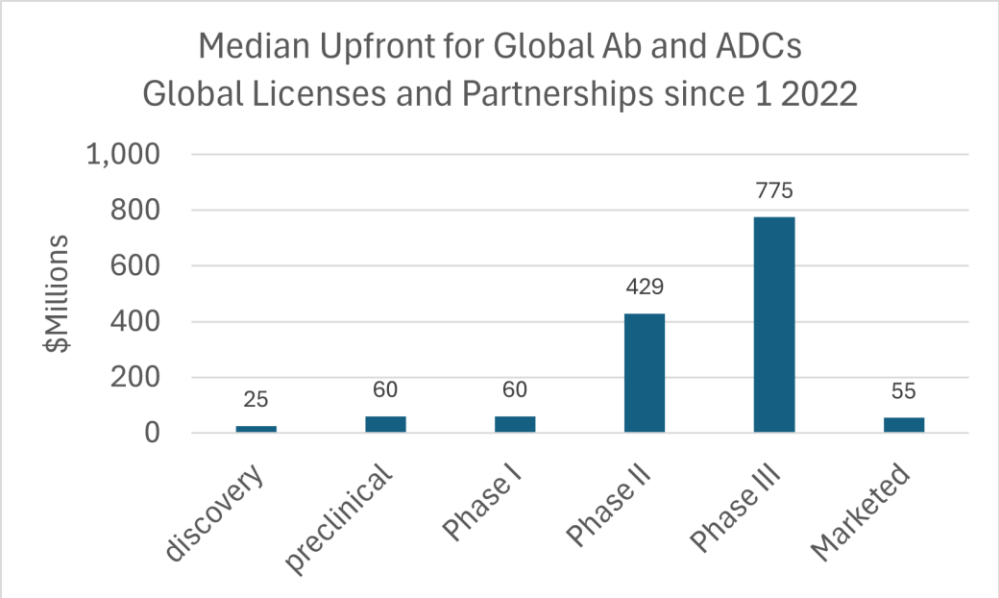
The value of a drug candidate should go up as risk is removed and time to sales is decreased. The biggest change in risk (or probability of

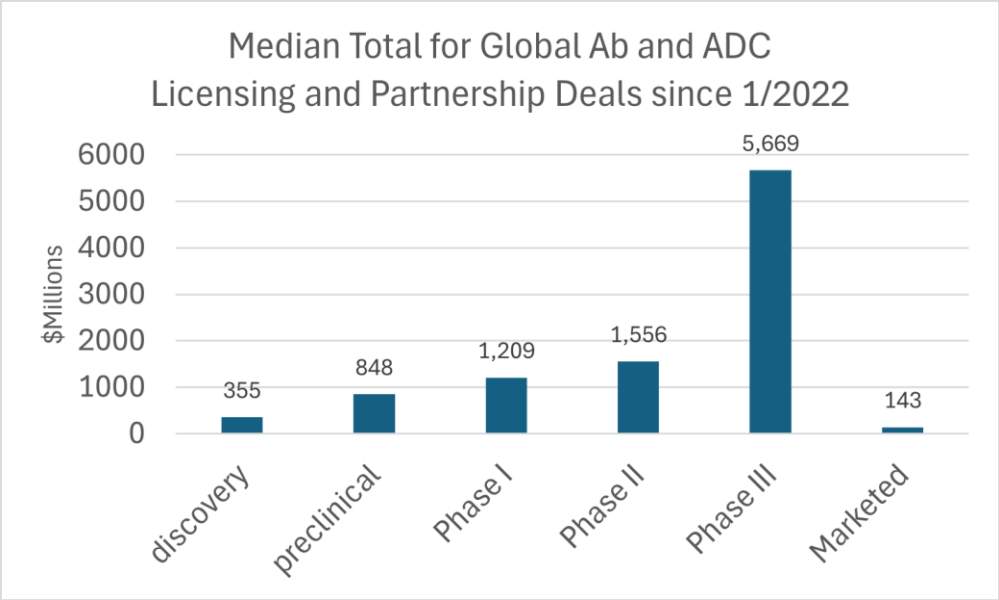
approval) occurs with completion of Phase II and completion of Phase III.



Maybe we are <u>still</u> comparing apples to oranges. We can narrow our search criteria more!

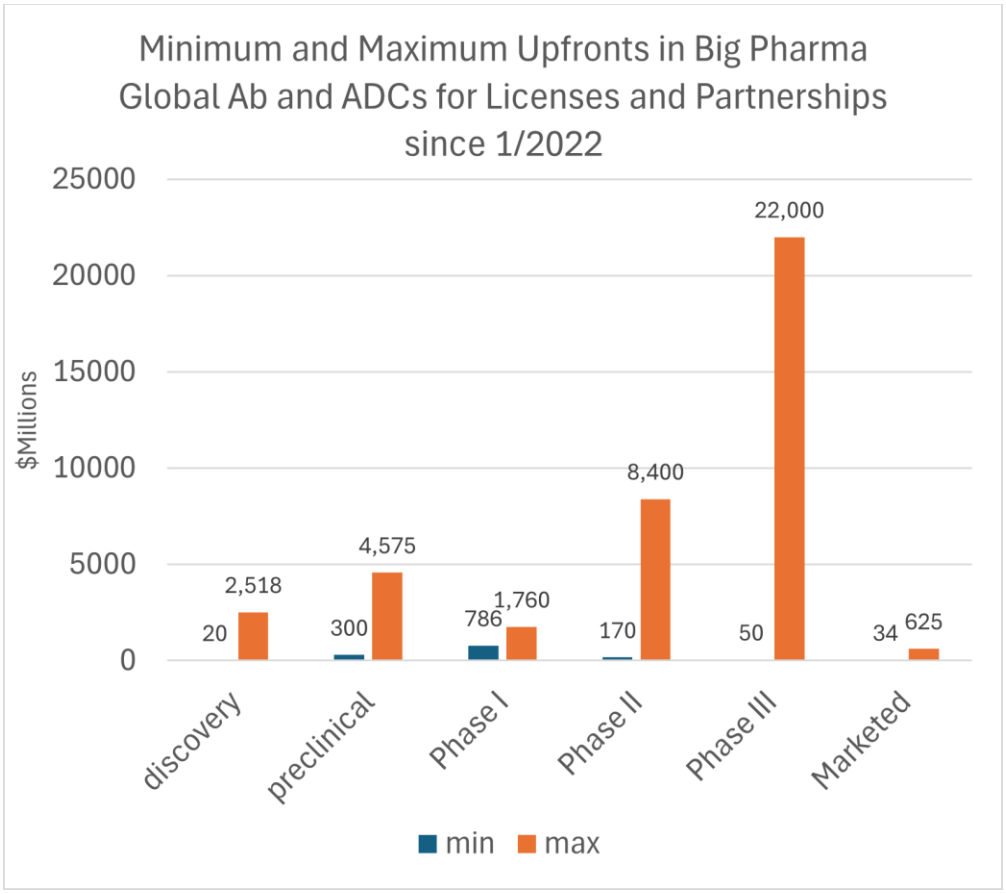
We will look at only big pharma (>$25B in revenues) as the acquirer and only Abs and ADCs as the molecule type.

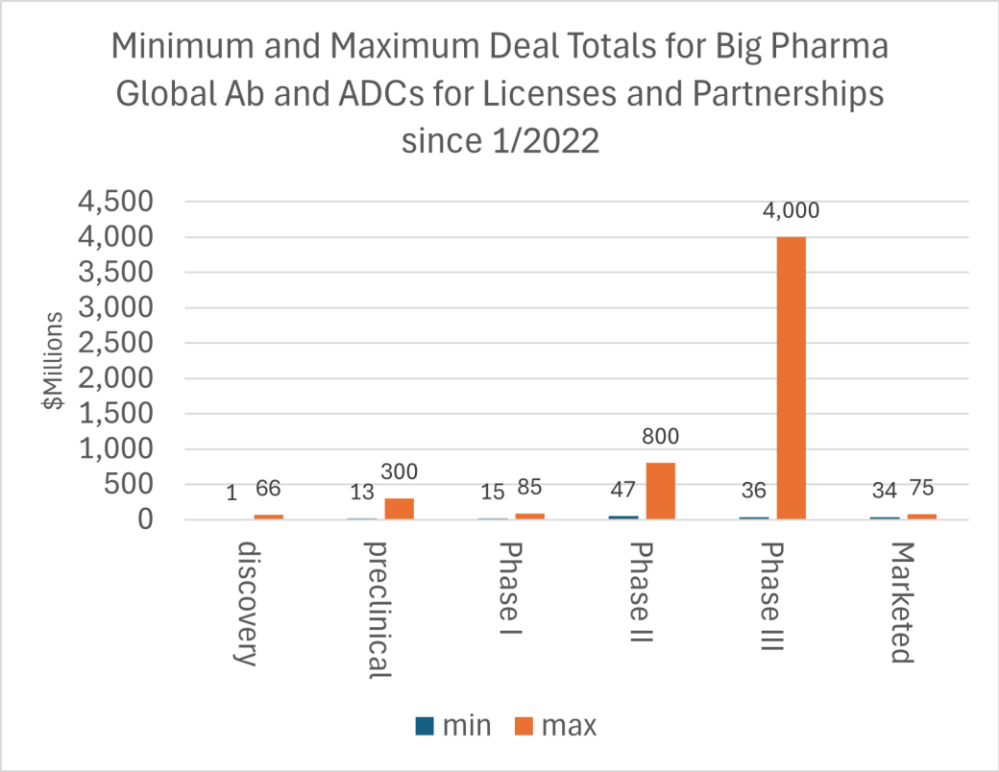




This looks much more like the deal values reflect the removal of risk with increases in upfront and totals for Phase II and Phase III. But, ...

Problem #4. There is still huge variation in both the upfronts and totals with the minimum and maximum so very different and the number of deals is getting smaller and smaller.


Minimum and Maximum Upfronts in Big Pharma Global Ab and ADCs for Licenses and Partnerships since 1/2022
25000
20000
15000
10000
5000
0
$Millions
20
2,518
300
4,575
786
1,760
170
8,400
50
22,000
34
625
discovery
preclinical
Phase I
Phase II
Phase III
Marketed
min
max



So what do we do when asked by clients to help think about what they should expect?

1) Recognize that only the upfront is "real money", as the totals including milestones are dependent on triggering events which may or may not happen.

2) Use narrowly-defined deal averages cautiously, recognizing the huge variations still remain.

3) Use a few well-chosen deals as comparables.

3) Use rules of thumb to model deal terms to see what a fair share of the drug profit would be on a rNPV basis.

Many companies use a rule of thumb for 33% value split of the drug's profit rNPV for Research, 33% for Development and 33% for Commercialization stage. Others use 25% for preclinical, 25% for clinical, 25% for CMC and manufacturing, and 25% for sales and marketing.

This does require that the model considers the size of sales, the time of launch and the probabilities of success by stage.

4) Think about the evidence for value (differentiation, position) to argue for your bigger share.

5) Build your BATNAs (best alternative to this negotiated agreement) and create FOMO (fear of missing out) because of competition.

6) Pay attention to all the non-financial terms that make those milestones and royalties possible to collect.