How to Win at the Partnering Game

Biotech and Pharmaceutical Partnering Facts, Fallacies, and Tips

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Background

Biotech companies are increasingly seeing the importance of aligning with strategic partners to advance their drug candidates to the market. For the small biotech company, central to this pursuit is developing an answer to an essential question:

How do we partner effectively?

For the small biotech company, partnering successfully requires knowing how to play the partnering game, from deciding when you should partner, understanding the partnering process both from your perspective and the partner's, clearly defining what it is you want from a deal, having an understanding of alternatives, and then reaching out to a variety of partners in order to find one that best fits your needs.

enter

Decide When to Play the Partnering Game

Deciding when to enter the partnering game may be largely determined by what it is you want to accomplish. The goal of partnering is typically to obtain non-dilutive funding or to off-load expenses when development costs such as a Phase III trials become too burdensome. But a partnership can also be valuable for gaining a partner's expertise and resources, or for the validation that partnership brings to your company. Keep in mind, as well, that on average, a partnership increases the probability of the technical success of getting your drug approved.

Fallacy No. 1: Later is Always Better

It would be logical to assume that the farther your drug is along the development path the more value you will get in a deal. But typically, the biggest deals with disclosed deal terms are those with Phase II data, not those deals signed with Phase III data. Both upfront payments and total deal values are bigger for Phase II deals than for Phase III deals.

Upfronts (millions of $US): Source: EvaluatePharma

	2013 (first half)	2012	2011	2010
Phase I:	$10	$12	$16	$15
Phase II:	$39	$34	$34	$46
Phase III:	$33	$27	$40	$27

Totals (millions of $US): Source: EvaluatePharma

	2013 (first half)	2012	2011	2010
Phase I:	$97	$61	$202	$164
Phase II:	$229	$267	$272	$281
Phase III:	$161	$138	$260	$208

The reason for an increase in deal value with Phase II data is the reduction in uncertainty about efficacy in humans. Investors and partners typically do not place value based on the stage of development as much as the answers to key questions. Value inflections come with the answers to questions such as:

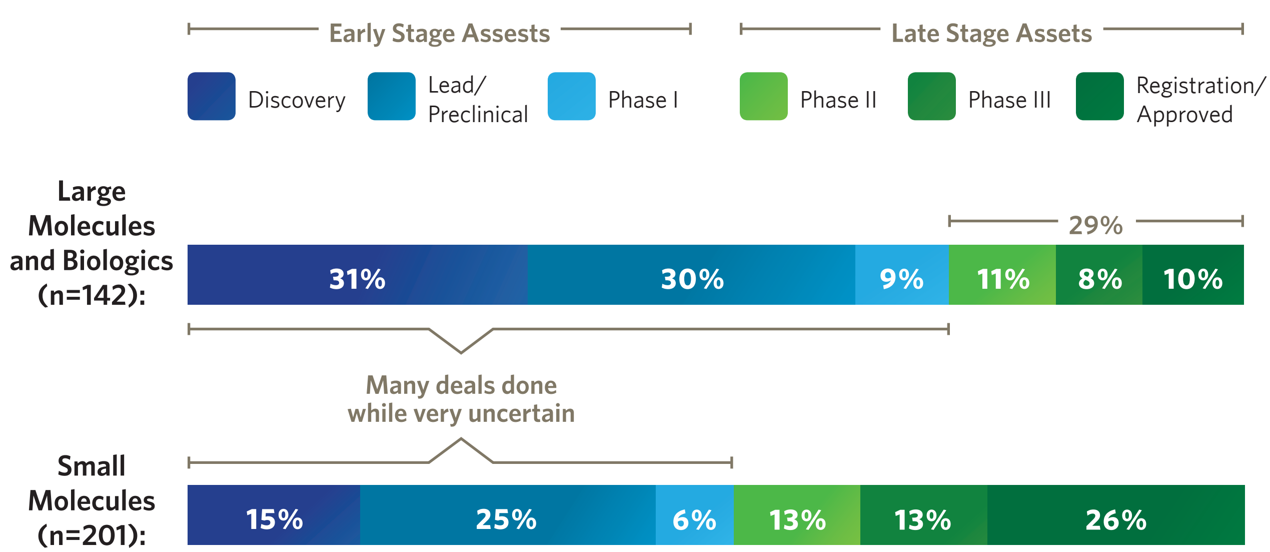
- **Does it work in animal models?**
- **Is it safe?**
- **Does it work in humans?**
- **Is it differentiated from the competition?**

If safety has been sufficiently proven in animal tox studies, the additional safety information that comes with a Phase 1 trial does not add much to the deal value, but rather is seen as a mere confirmation of the safety previously demonstrated in animals.

Studies that do not address the key remaining questions may not add much to the deal value, and, of course, negative results can remove value, or cause a deal to fail.

Fallacy No. 2: You Can't Partner at Pre-Clinical

Although deals done during Phase II typically see the biggest numbers, that doesn't mean partnering earlier isn't feasible. Many deals are done early. In fact, as demonstrated in the chart below, roughly 50-60 percent of deals done in recent years were done at pre-clinical or discovery stages.



Source: Deloitte Recap LLC's DEAL Builder ™

Fallacy No. 3: Novelty is Key

Novelty is great, but if your drug is truly novel, communicating your story becomes more challenging. A partner wants to understand a lot of the biology before they invest in the development of your drug. If your drug is novel, that means creating that narrative from scratch rather than referring to existing literature or competitor's data. A partner will want to know—

- **the connection of the target to the disease**
- **the specificity of the drug for the target**
- **the drug's effect on disease models**
- **that the target is responsible for the drug efficacy**
- **the solubility, stability, and pk of the drug**
- **the drug's safety**
- **that there is a clear path to the market**
- **what patients you will be treating**
- **how you will select those patients**

How you will deliver value to the healthcare system and payers needs to be clearly communicated. Again, novelty can be an advantage, but realize it comes with greater challenges in providing all the needed information in a clear narrative.

value

Know the Process (The Rules of the Game)

The partnering game is a process for both sides. During the process, both you and your potential partner will be working toward defining the value proposition of your drug. Each side will be trying to find a partner that fits the goal for doing a deal (for a big company, this may be a fit to their portfolio strategy).

For the small company, part of that judgment on fit is finding a partner that recognizes the value of the opportunity, and one they can work with successfully after the deal. After both sides agree there is a possible fit, negotiations can begin with an exchange of deal concepts, followed by term sheets and a full agreement.

Complex technical opportunities require significant preparation to communicate the value of the opportunity for your potential partner. Describing and supporting the value of the opportunity to the partner becomes the content of a partnering presentation, which should be aimed at answering the question **"What's in it for me?"**

Fallacy No. 4: Good Science Speaks for Itself

Yes, strong science can speak for itself, but often being able to appreciate the implications of that science is difficult. As a young company, you need to clearly tell your story in a way that is compelling and resonates with potential partners. This story must be powerfully conveyed from the very first point of contact. ⇨ **To do that, you have to focus on the key questions that a partner wants answered.**

The first thing to communicate from the very beginning is **"Why this drug?"** What's special about your opportunity?

If the uniqueness of your opportunity is not clearly conveyed right from the start, a partner might not dig any deeper, and might never appreciate the value you're bringing to the table.

⇨ **How are these value propositions best communicated?** There are a variety of forms used to convey your value proposition including:

- **The Elevator Pitch**
- **The One-Pager**
- **The Non-Confidential Deck**
- **The Confidential Deck**

All of these work to communicate value to potential partners, but they also help to qualify or eliminate potential partners. They also increase in depth over time, moving to the next step in a partner's filter. Each of these tools should not only be aids to your verbal presentation, but should have the ability to stand alone as well because they are often passed along to others who don't have the benefit of hearing you in person. Ideally, these materials are so good that your partner can use them as their briefing documents for their internal decision making.

Remember, your partner is trying to learn in weeks everything that it took you years to create. They might not always get it right, so it may be necessary to guide them through the learning curve. It's difficult to appreciate all the nuances of an asset if you're not an expert in the field. So, if your asset is outside their area of expertise or something that's a new approach, you want to make sure they have what they need. Give them access to your experts, provide overview presentations and answer questions. In short, spend the time it takes to make sure they're getting it.

What a Partner Wants to Know

WHY THIS DRUG?

- What unmet needs does it address?
- What makes it special?
- How does it compare to market standards and developing competition?

WHAT IS ITS POTENTIAL?

- How does it work?
- What is the mechanism of action? In vivo?
- What is the evidence for its potential?

WHAT ARE THE RISKS?

- When will risks be addressed?
- What is the stage of development/ completeness of data?
- Is it practical?
- How hard is it to manufacture?

WHAT WILL I HAVE TO DO AND SPEND TO SEE REVENUES?

- What is the path to market?
- What is the path to reimbursement?

Fallacy No. 5: No is Always Bad

It hurts to be rejected. You've worked hard on your asset and it's disappointing to be told that someone isn't interested in it. **But the truth is, you need to evaluate the fit of a partner just as a partner needs to evaluate the fit of your opportunity.** A small company should not spend its time pursuing partners who won't do a deal, just as a big company shouldn't spend time pursuing things that don't fit their strategy.

The In-Licensing Process

The In-Licensing triage process is a big one. Pharma companies can look at over 500 opportunities a year in a single therapeutic area to sign only a few deals. Their process is aimed at filtering down to the opportunities that best fit their strategic model. Your goal should be to clearly present the information the partner needs to appreciate the value of your opportunity and to get to the next step.

Remember that diligence is a huge commitment for both sides, so it may be better to hear a "No" before getting to diligence rather than hearing it after diligence has been performed.

⇨ **Diligence is where a virtual data room becomes critical.** A virtual data room provides the most convenient platform for sharing your data in a secure, organized and easily accessible way. A virtual data room, prepared well in advance of the diligence process, can serve to keep deal momentum, show that you are professional, and even make a partner believe they have competition.

Keep in mind that you should play an active role in the diligence process. Organize materials so that they're easy to find. Point them to the key documents that support the claims about the opportunity you're offering them. Guide them to the conclusions that you want them to come to.

⇨ **A virtual data room should organize data for the specific disciplines of the various team members.** With a virtual data room it's also very easy to stage the sharing of the most sensitive information, sharing only when it's necessary to do so. Biology and clinical results are rarely held back as knowing them does not enable competition. Typically chemical structures, manufacturing processes and unpublished patent applications won't be shared until it becomes clear that the seriousness of the partner merits it.

Fallacy No. 6: Get to Talking Dollars Fast

Negotiations begin the moment you start talking, and moving quickly is almost always advantageous. **However, you don't want to start talking dollars before you know the scope of what is included and how the partnership will be structured.** Typically financials come after diligence is completed. Diligence is a big resource commitment and is the process that leads to a partner's understanding of the value proposition. If terms are exchanged before diligence, the due diligence process will inevitably reveal issues, which can result in a reduction of terms. Generally, it is best to let the due diligence process play out before talking financials.

Term Sheet Basics

SCOPE

- What's included?
- For what use and where?

MECHANICS

- How will we work together?
- Who does what?

FINANCIALS

- Upfronts, milestones & royalties

TERMINATION

- What if the deal falls apart?

Along the same lines, term sheets should not be drafted prematurely. Wait until both sides have had an opportunity to gain a sense of what they want from the relationship. ⇨ **A term sheet drafted too early can end up wasting time on false directions or even killing a deal by asking for something that doesn't fit with the partner's preconceptions.** Prior to drafting a term sheet, have a conceptual discussion of what's important—your general wants and needs for the deal. This lessens the risk of shock and a misfit of the term sheet. When the term sheet is drafted, start with general wants and needs and move to more specifics such as what's included and how to work together as the term sheet evolves through multiple iterations.

deal

Have a Clear Strategy

A clear strategy drives the deal. Know what you want, make sure everyone on your team is in sync, and know your alternatives.

By defining your needs and wants, you are defining those things that are essential to the deal and those things you're willing to be flexible on. ⇨ **Having alternatives gives you leverage to extract value and as the deal moves along, you can assess if the developing terms of the deal are still more attractive than your alternatives.** Exploring and understanding alternatives is an area where it can be helpful to seek out advisors, consultants and lawyers. Review what's been done before by your potential partner. Search their prior deal contracts in Edgar SEC filings or Recap. Also look at what other companies have done at similar stages and for similar deal structures.

Throughout the negotiation process, know what makes sense for you, but also consider what makes sense for your partner. It's easier to persuade someone to jump through a hoop if you can show them why it's good for them. **And, always consider as many scenarios as possible.** What happens if the deal goes wrong? What if the development moves slower than anticipated? What if the partner decides not to develop a second indication?

⇨ **Maintain alternatives throughout the negotiation process—even at very late stages, deals often fall apart.**

Fallacy No. 7: Ask for Everything

Sometimes small companies, knowing there will be compromises, will start by asking for the moon. This can be a good way to lose credibility and may make the other side walk away before they've even had the opportunity to understand your asset. **Be sensible.** Yes, ask for more than you expect to get, but don't go crazy.

⇨ **Again, define your needs and wants.** If you know what you want, and prioritize, you have a better chance of clearly communicating your expectations to a partner and getting the things that are most important to you.

Think about:

- **Money—Now or later?**
- **Timing—Move fast now or progress later**
- **Resources—Mine? Yours? Someone else's?**
- **Risk—Avoidance? Removal?**
- **Options & Flexibility**
- **Control—Who does what?**
- **Image & Validation**
- **Relationships**
- **Quality**

Write your needs and wants down so you can keep checking to confirm throughout negotiations that you're on the right track.

Fallacy No. 8: If We Lower the Price, We Can Get a Deal

Big companies are very willing to pay top dollar for what they perceive as a top opportunity. In contrast, a low price generally does not increase the probability of a deal. **There is some point where no matter how cheap an opportunity becomes, it's still not perceived as attractive due to too much uncertainty or risk.** The industry is remarkably price insensitive for opportunities it wants and doesn't see a lower price as driving deals. A smaller partner may be more price sensitive, but big companies are driven more by data and the expense they'll incur for development than they are by the price of the deal.

win

Play Often

Just like in any game, it pays to play often to increase the probability of a win, and this is connected to one of the most common fallacies:

Fallacy No. 9: We Already Know the Best Partner

Having a pre-conceived notion of the perfect partner for your opportunity can be a mistake. **The public persona a company projects does not always reflect the current thinking inside the company.** Often a single employee can influence a decision. Maybe the company has a new VP with a new vision or a past bad experience in your area. Sometimes a company's past failure can look like an opportunity for your asset as their solution, when in actuality that experience has made them reluctant to pursue that area at all.

⇨ **Think broadly and you could be surprised.** An attractive partner could be one that you never would have considered as a possibility. Corporate strategies change and companies can get excited by a therapeutic area they're not currently in. So, don't limit your options, especially at the beginning. This is what the exploration and discussion phase is all about—it is casting a broad net to see if there's a partner out there who turns out to be the perfect match.

And, no matter the potential partner, tell a great story that clearly shows how you're going to deliver value to the market. Deals get done because of:

- **The clarity of the value proposition**
- **Belief in market potential**
- **Belief that risks can be addressed early**
- **Competition for the deal**
- **Internal champions**
- **Strategic imperatives**

Fallacy No. 10: If We Could Just Talk to the CEO

Talking to the CEO might be effective if you have a relationship with that person. Otherwise, you risk being perceived as a nuisance and getting funneled off to the Business Development person who would have handled it in the first place.

If you have a real connection, by all means take advantage of it. But don't pester people you don't know and remember that there is a process. Even if the CEO says, "This looks interesting," it's still going to go through the process.

How Do You Build Interest?

- **Have repeated discussions at multiple levels**
- **Make the value proposition clear**
- **Add data to remove questions when they arise**
- **Use science publications and meetings to establish internal champions**
- **Capitalize on real connections**

vision

Win!

To win at the partnering game, it's important to develop an effective partnering strategy. Know your company's vision for the future and how a partnering deal will mesh with that vision.

Ask yourself what scenario is best for the product. Will a partnership increase the probability of technical and commercial success? Does the potential partner have the resources to speed up or maximize the development of your product? Are there alternative funding options that make more sense than a partnership?

⇨ **If it looks like it's the right time for partnering, then have a clear strategy, play often, and win at the partnering game.**

About Linda Pullan

Linda M. Pullan, Ph.D. offers biotech and pharmaceutical companies consulting in all aspects of partnering through Pullan Consulting (www.pullanconsulting.com). Linda has a Ph.D. in Biochemistry and a B.S. in Chemistry. Linda has more than 20 years of drug industry experience, beginning in drug discovery at Monsanto/Searle/now Pfizer and ICI/Zeneca/now AstraZeneca. After doing licensing at what is now AstraZeneca, Dr. Pullan continued as head of oncology and hematology licensing for Amgen. She then joined Kosan Biosciences as VP of Business Development and experienced all the tasks of out-licensing and business development in a small company. For several years, she has been providing companies help in identification, evaluation, valuation, negotiation and strategy for partnering in or out. She has an extensive deal sheet ranging from company acquisitions to Phase III compounds and from preclinical candidates to technologies, with both in- and out-licensing. She writes a free monthly newsletter, Pullan's Pieces, with tidbits of science and business. Interested readers may sign up by sending an email to linda@pullanconsulting.com.

About the 2014 BIO International Convention

The BIO International Convention is the largest venue for private company-to-company meetings in the world. According to an independent survey, partnering events such as BIO drive the majority of successful deals in the biopharma industry. Central to this event is the BIO One-on-One Partnering™ System, which is the most efficient and economical way to find a business partner. The system allows attendees to search thousands of company profiles and request and schedule an unlimited number of face-to-face meetings. After organizing nearly 26,000 Partnering meetings at BIO 2013, the BIO One-on-One Partnering System continued to break records at BIO 2014 in San Diego with over 29,000 Partnering meetings between nearly 3,200 companies.

The BIO International Convention allows exhibitors to reach high-level executives and influential decision makers who come to BIO to discover new players in the industry, form partnerships and evaluate emerging technologies. The 2014 BIO Exhibition floor featured more than 1,700 exhibitors and covered approximately 180,000 square feet. The exhibition also included 60+ state, regional and country pavilions who in turn hosted many companies from their regions.

About ShareVault

ShareVault® is the industry leader in supplying intuitive, innovative virtual data rooms that provide a simple and secure way to share sensitive documents with third parties during the due diligence process.

The on-demand platform is an innovative cloud-computing solution that enables its customers to manage critical time-sensitive and document-centric processes faster and more intuitively. ShareVault offers the highest degree of security and reliability combined with unparalleled speed, ease of use and functionality. Backed by the experience of billions of dollars in successful deal transactions, along with industry-leading customer support, ShareVault can be a critical tool in accelerating deal transaction times and increasing deal success rates.

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