



THE VALUATION EXPERTS

**Licensing deal versus VC financing:
A valuation approach**

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Overview



- 1. Introduction**
- 2. Valuation of Products**
- 3. Deal vs. Financing**
- 4. Conclusion**

Venture Valuation

1. Information Services: Biotechgate.com Database

- Database for over 25 countries
- 16'000 company profiles
- Manage database for Canada, San Diego, Maryland, Medicon Valley, Switzerland, etc.



2. Independent, third party Valuations

- Product & Company valuations
- Not a venture capitalist
- Experts Finance & Biotech/Pharma Industry
- Track record of over 160 valued companies
- Clients such as Novartis Venture Fund, Fraunhofer Gesellschaft, European Investment Bank; Arpida/Evolva

Valuation of what?



1. Valuation of a product
 - ⇒ Licensing deal
 - ⇒ Strategic development decision



2. Valuation of a company
 - ⇒ Investment / Financing round
 - ⇒ Merger / Acquisition
 - ⇒ Measure success of company development



Definitions



- Value: implies the inherent worth of a specific thing
- Price: depending on the market (supply / demand); whatever somebody is prepared to pay

“Price is what you pay. Value is what you get.”

By Warren Buffett

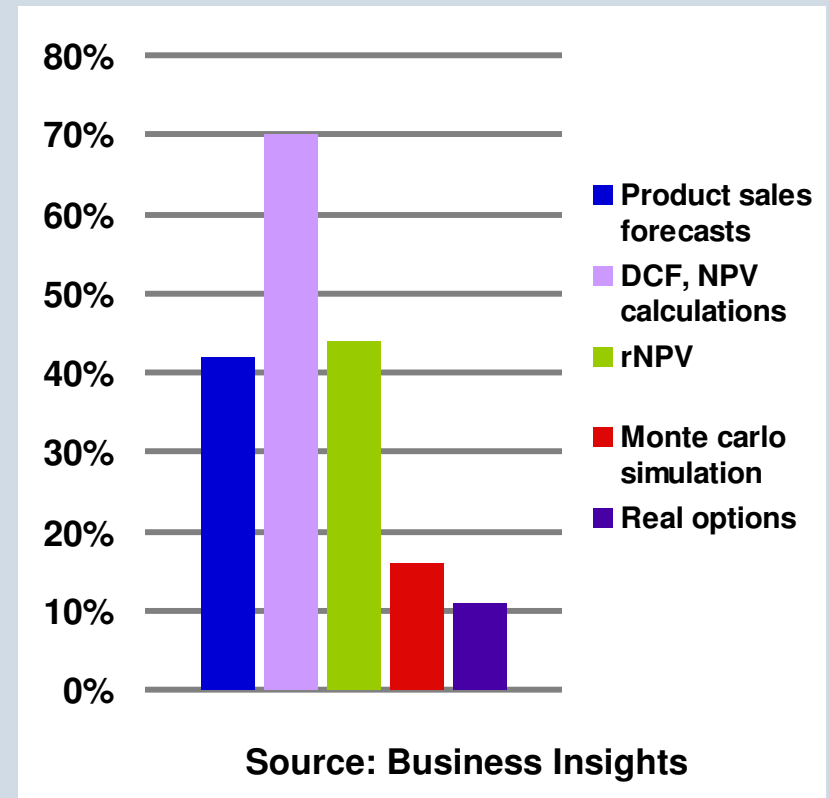
Valuation Methods

complexity ↑

- Monte Carlo Analysis
- Real options
- rNPV*
- Discounted cash flows
- Simple sales forecasts

rNPV: risk adjusted Net present Value

Industry use

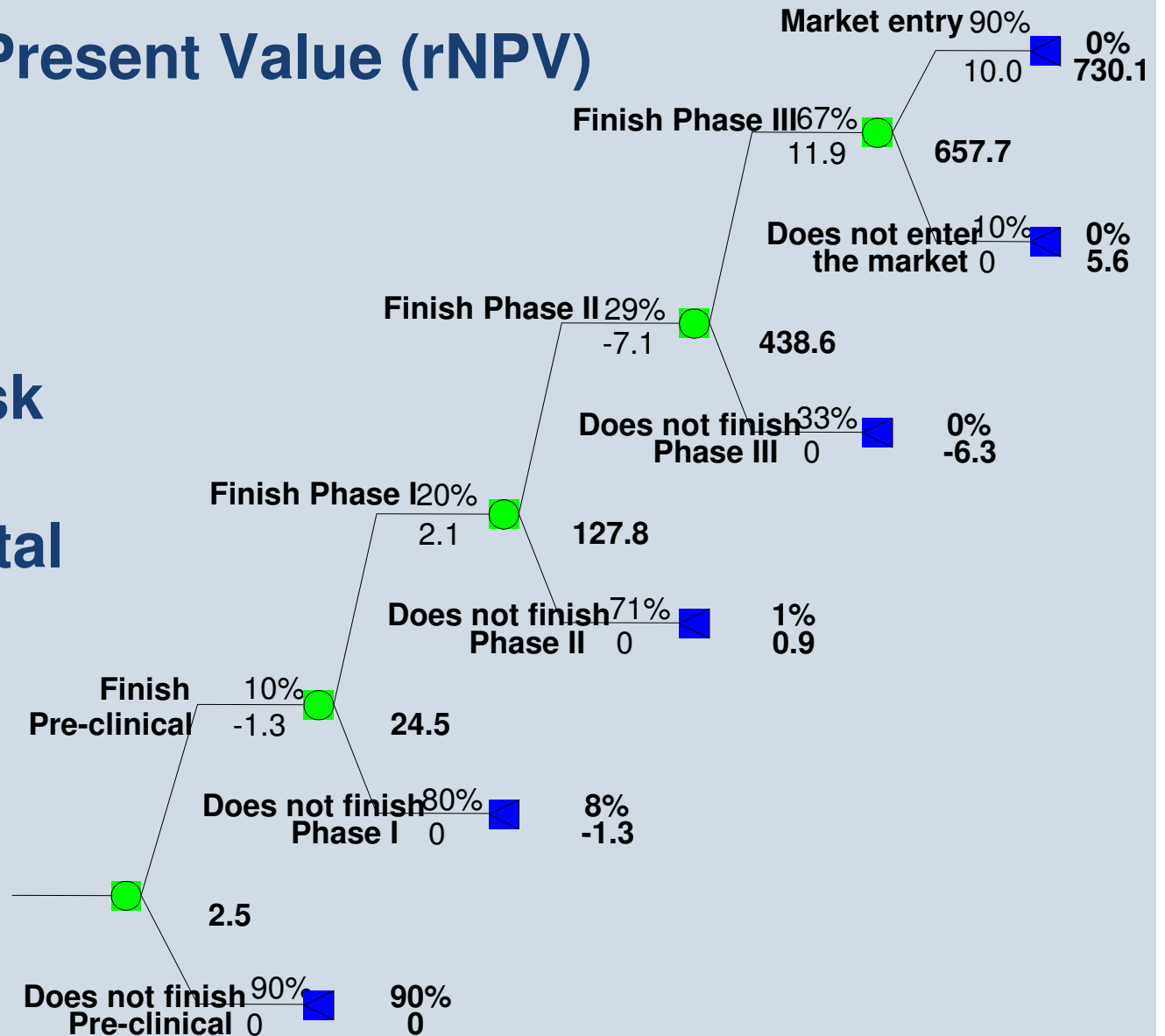


Risk-adjusted NPV



Risk adjusted Net Present Value (rNPV)

- Method of choice
- Adjusts value for **Development Risk** (attrition rate) and **Cost of Capital**



Deal terms



- Front / back-loading a deal can heavily influence deal structure
- Its important to understand the valuation metrics of a deal

	In USD m	Payment of	rNPV (or up-front)
	Up-front	1 m	1 m
Milestone	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

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Licensing vs VC Financing



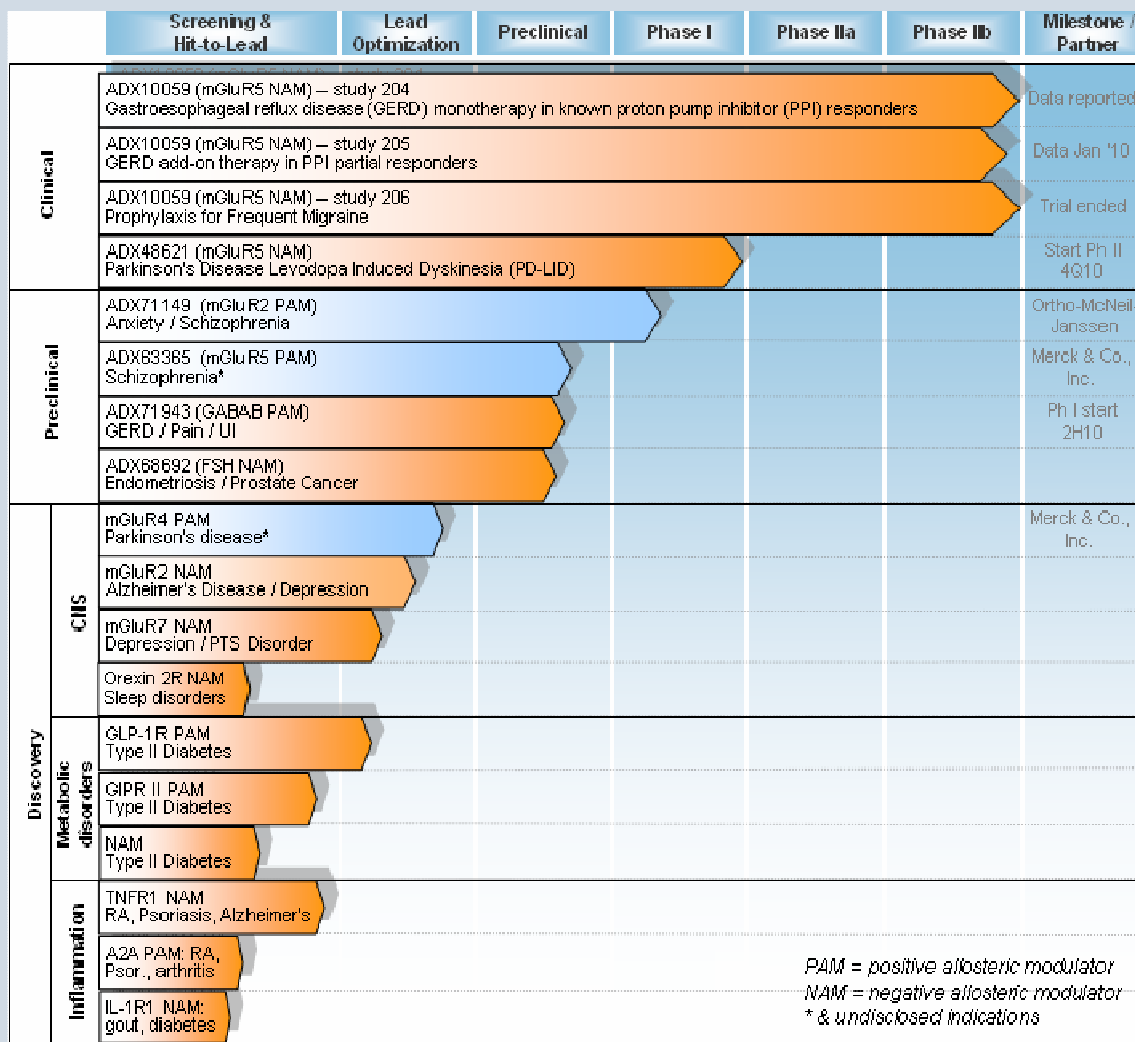
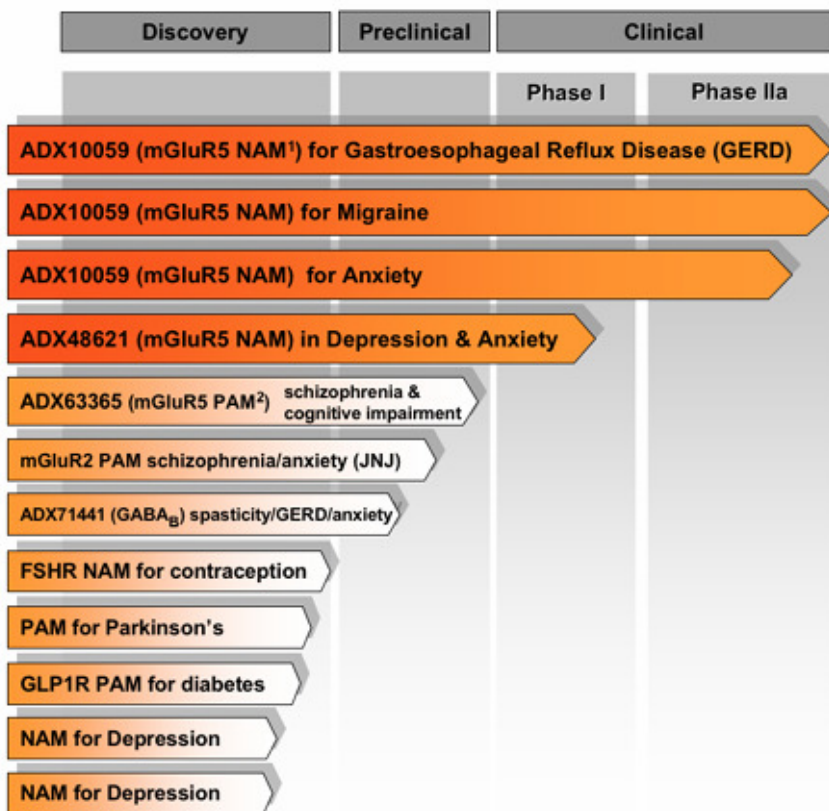
VC Financing	Licensing Deal
<ul style="list-style-type: none">• Venture Capitalist/Investor• Dilution / valuation • Enough to get to next value creating milestone • Risk / reward remains with shareholders• Know-how for M&A deals• Portfolio	<ul style="list-style-type: none">• Pharma• Deal terms / value preservation• Collaboration model• Milestone payments must fund development • Risk / reward sharing• Up-side capped• Know-how for development• Single product

Addex example



2007

2009



PAM = positive allosteric modulator
 NAM = negative allosteric modulator
 * & undisclosed indications

Cash: CHF 161 m

Cash: CHF 70 m

Close-up: Licensing Deal



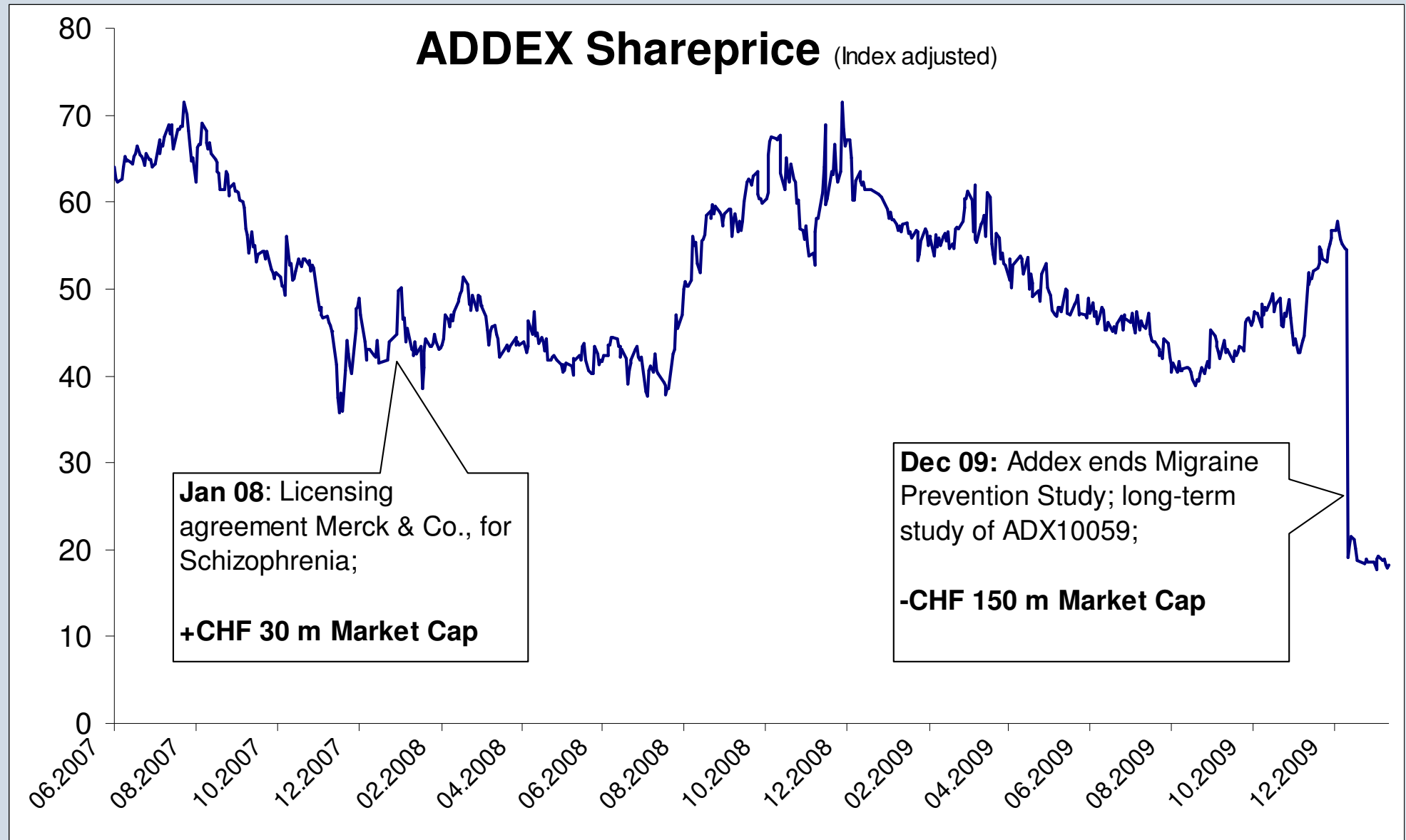
ADX 63365 Schizophrenia

- Partnered and out-licensed to Merck & Co., Inc.
- Deal announced in Jan 2008
- Upfront USD 22 million
- Milestones total USD 680 million (USD 455 m + 225 m)
- Pre-clinical stage
- Treatment of schizophrenia and other undisclosed indications
- Further development led by Merck

ADX 10059 Migraine

- Own development
- Successful phase IIa
- Had to be stopped in phase IIb
- Same product also for other indications (total of 3 clinical products)

ADXN: The impact of news



Impact of success / failure



VC Financing	Licensing Deal
Failure: <ul style="list-style-type: none">• Full impact• Possibly further funds required	Failure: <ul style="list-style-type: none">• Up-front / milestone payment received
Success: <ul style="list-style-type: none">• Requirement for more funds• Better licensing terms	Success: <ul style="list-style-type: none">• Shared profit through royalties• Income from milestone payments

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Addex: Conclusion



- Reduced R&D spending through out-licensing
- Portfolio approach with own development & out-licensing
- Licensing revenues of CHF 27 m in 2008
- Cash of ~CHF 70 m in bank at end of 2009
- Currently trading at cash (price)

=> Too much dependency on one product for several indications

Licensing vs. VC Financing

	VC Financing	Licensing Deal
Earlier Stage Products (products 3, 4, 5)	(-) <ul style="list-style-type: none"> Funds raised on later stage products Price: low / none within portfolio 	(++) <ul style="list-style-type: none"> Interesting for pharma Limited value to VC / analyst
Lead Products (products 1 & 2)	(++) <ul style="list-style-type: none"> Preserve potential within company Creates main value for investors 	(+) <ul style="list-style-type: none"> Reduces burn-rate Provides Cash Depending on Deal terms / value



Summary

- Focus on lead products
- Portfolio approach
- VC/Equity financing plus partnering of early stage pipeline products
- It's always a question of price and value
- Keep financing options open



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Thank you!

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