



THE VALUATION EXPERTS

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

**Dr. Patrik Frei
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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

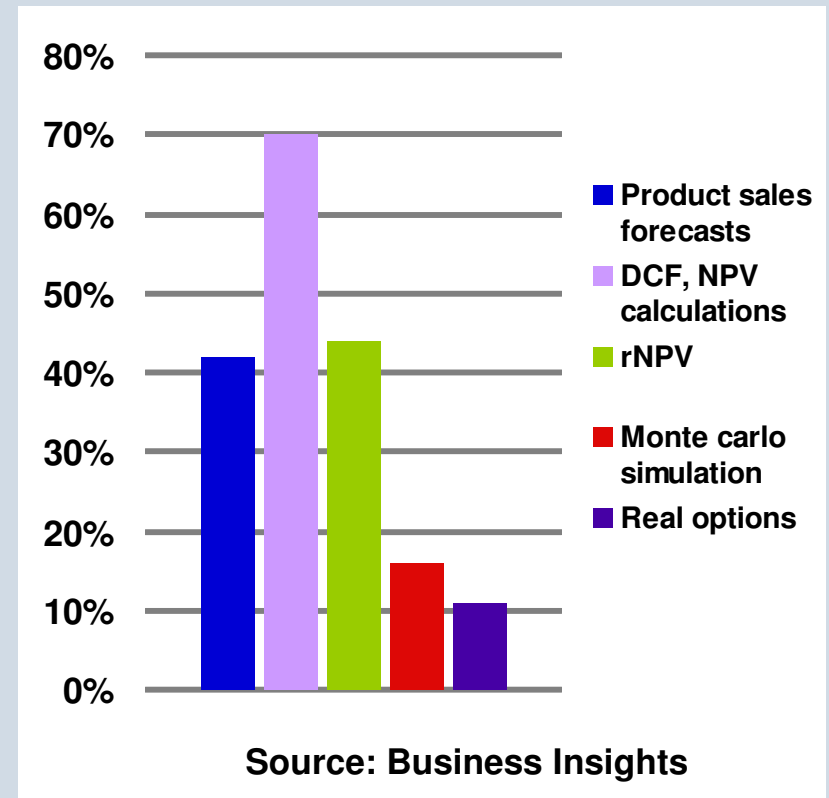
Valuation Methods

complexity ↑

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

rNPV: risk adjusted Net present Value

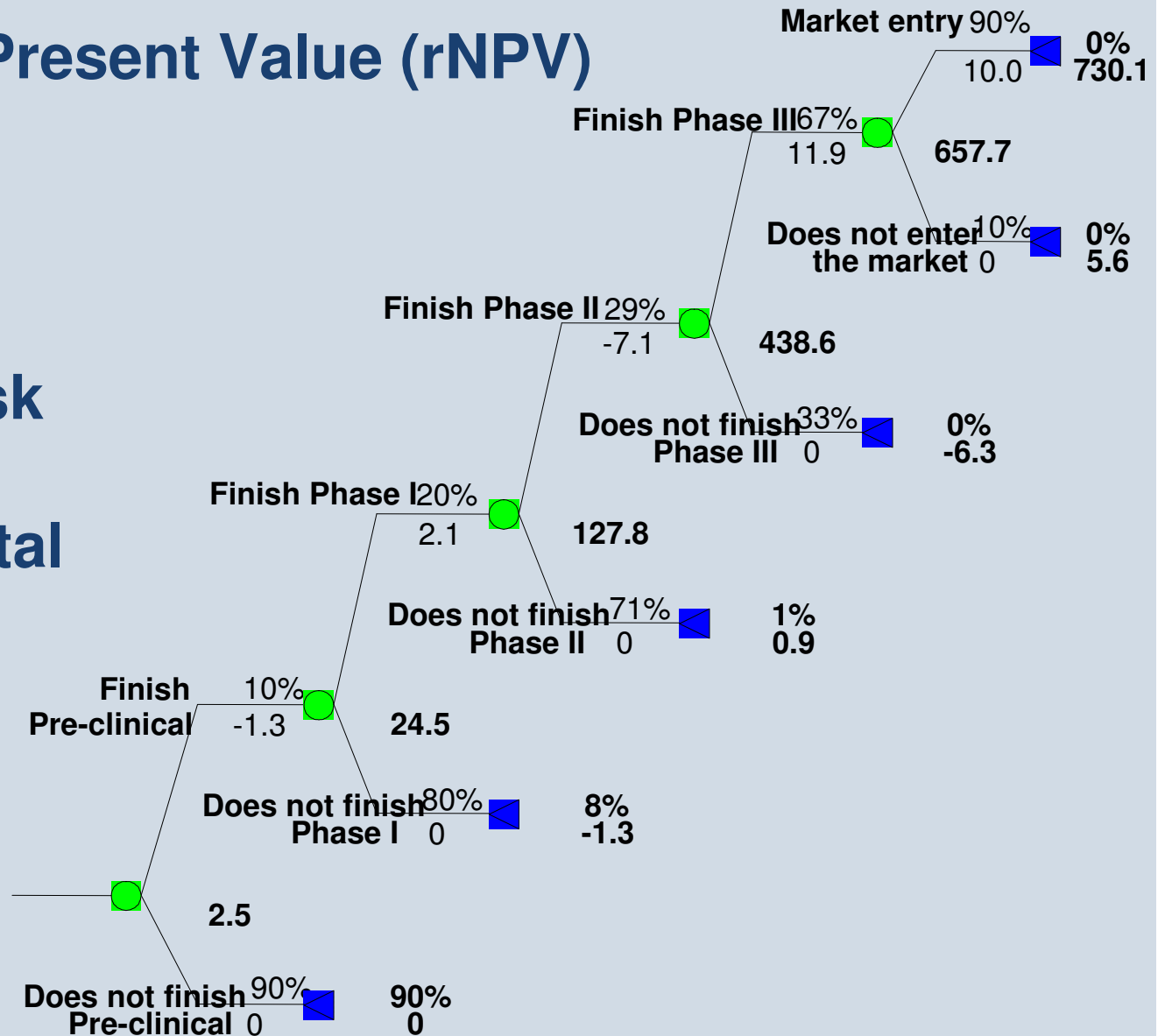
Industry use



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



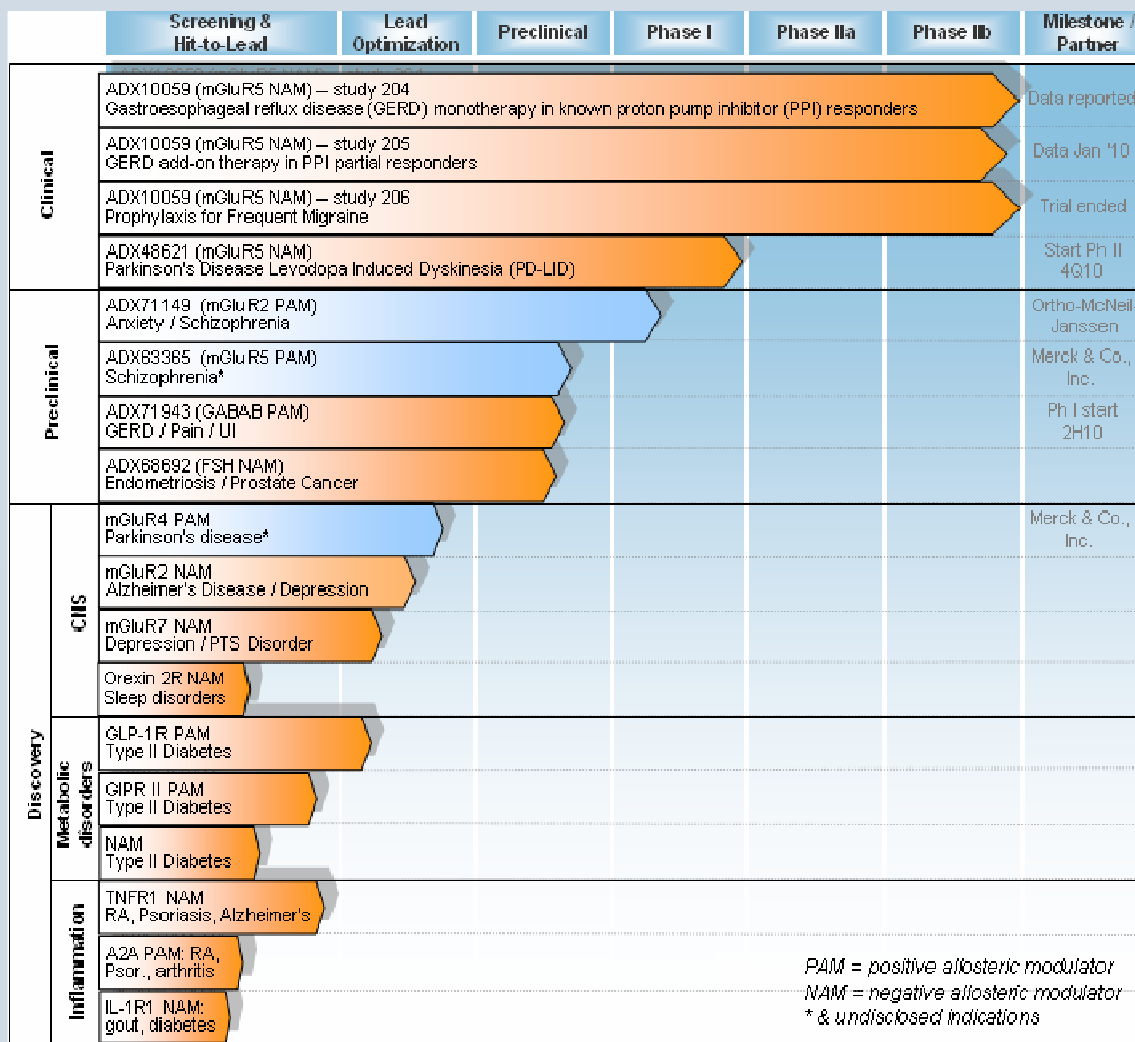
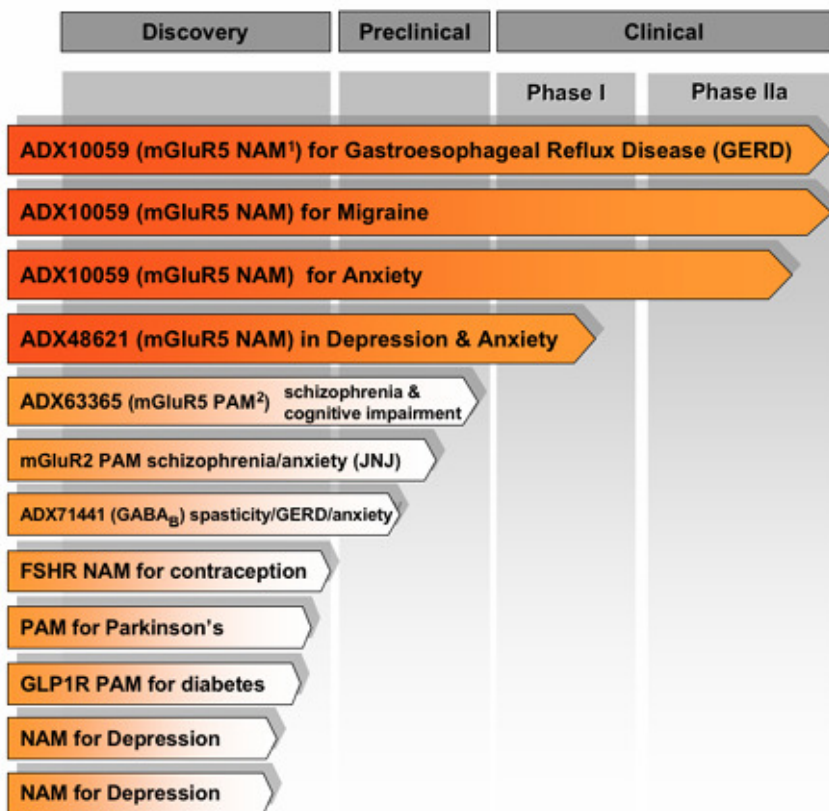
| VC Financing | Licensing Deal |
|--|---|
| <ul style="list-style-type: none">• Venture Capitalist/Investor• Dilution / valuation • Enough to get to next value creating milestone • Risk / reward remains with shareholders• Know-how for M&A deals• Portfolio | <ul style="list-style-type: none">• Pharma• 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



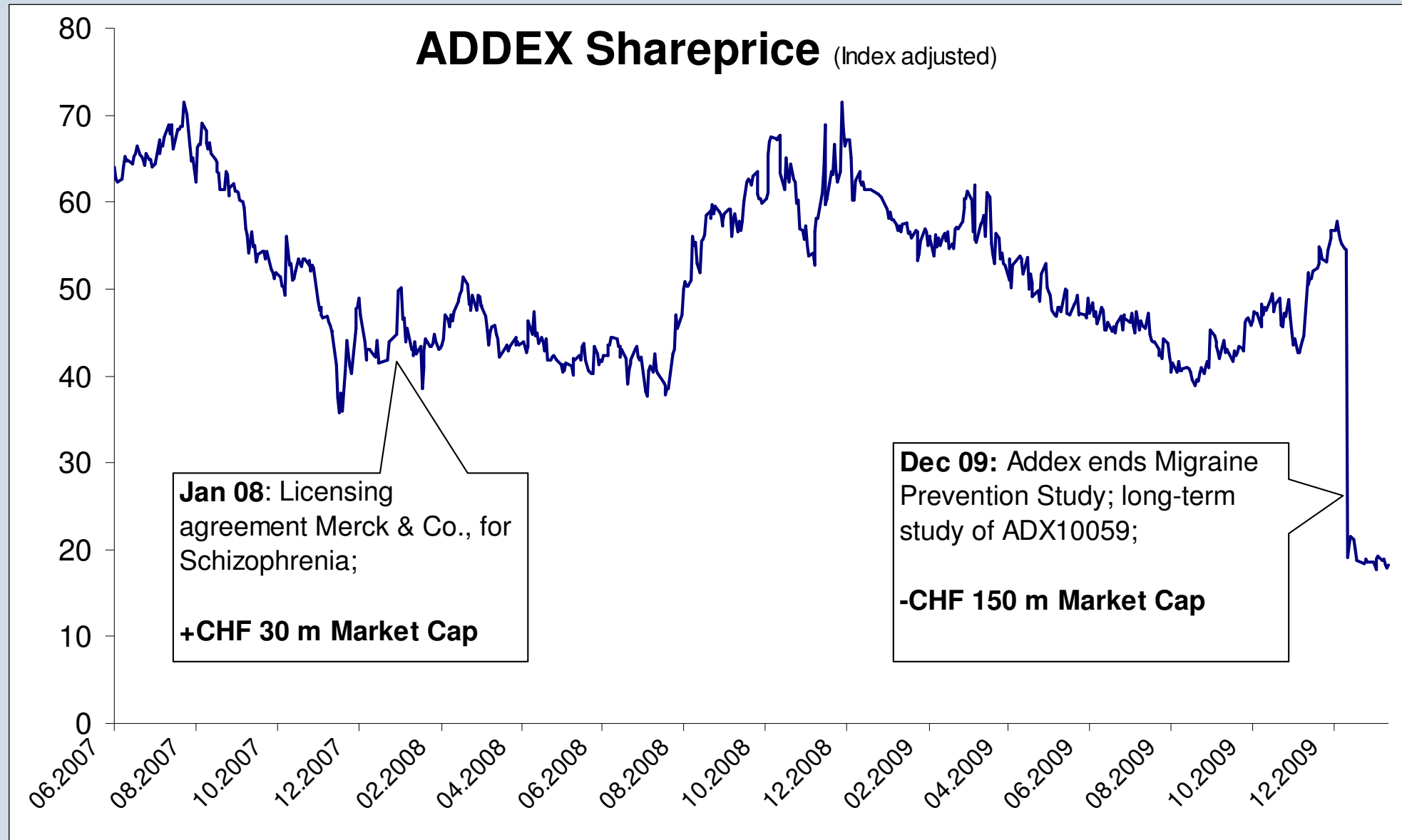
ADX 63365 Schizophrenia

- 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 | VENTURE VALUATION

| | 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!

Tel.: +41 43 321 86 60
Fax: +41 43 321 86 61
www.venturevaluation.com
p.frei@venturevaluation.com

Venture Valuation AG
Kasernenstrasse 11
8004 Zürich