

TOP VALUE DRIVERS IN THE LIFE SCIENCE INDUSTRY

A look at key elements that will help differentiate
your company from the competition.

*By Dr. Susanne Acklin, September 2011**

Introduction

It is generally agreed among valuation experts that management, market potential, technology, products and services are among the top value drivers for a life sciences company. In this article, we will take a closer look at key issues within these topics that, in our experience, are often overlooked and, when thoughtfully addressed, can help to distinguish a company from its competition in the eyes of an investor or potential development partner.

Top Value Drivers

Management

Many investors have learned from experience that a company with good technology and bad management is likely to fail, while a company with good management still has a chance to succeed despite technology challenges.

When we value a company, we see the management team as the “insurance policy”, the executive arm that will ensure that a given development strategy is effectively implemented in a real life business environment, that challenges will be met and that hurdles will be overcome. As such, in our view, identifying and addressing the following key issues can favorably distinguish a company:

Key Issue: Management is wearing too many “hats”: In a small to midsize company, it is often the case that a small management team covers a large area of responsibilities. We see, for example, companies where the CEO also covers the role of Chief Scientific Officer, Chief Financial Officer or Business Development officer, and, as a result, one or several of these functions that are critical to a company’s governance and growth, gets less than adequate attention. While such resource issues often cannot be immediately remedied, a clearly outlined hiring strategy as well as the temporary enlistment of qualified members of the board and/or third party advisors to cover management gaps, can help to avoid raising “orange flags” in the eyes of an investor. In addition, although this is not always possible due to logistic and tax reasons, instating a management and employee stock option plan can give an added sense of stability and help demonstrate that a company is serious about attracting and retaining key talent in the future.

Key Issue: There are “gaps” in expertise: Gaps in expertise in critical fields including regulatory affairs, manufacturing and intellectual property, while often unavoidable in startup and even in midsize companies, can, if left unaddressed, lead to missed product development milestones, increased development costs and ultimately to a decrease in product and company value. While it often does not make sense to fill such expertise gaps with full time, in house personnel at an early development stage, it is never too early to identify and retain qualified external advisors to help put together the initial elements of registration, manufacturing and intellectual property strategies. Often such proactive behavior can save a company thousands of dollars and go a long way to lending credibility and substance to a given corporate or product development plan and associated future projected earnings.

Technology, Products and Services:

A technology platform, products and/or services often represent a high-growth company’s main assets and as such form the foundation of future projected earnings. Most technology companies excel at understanding their technology and its potential, they often have already demonstrated proof of concept for their lead product(s) and now are looking for financing to help with further development steps. The challenge often lies in moving from initial proof of concept stage to focusing on and executing solid development strategies for lead products. Here are some of the critical issues that we tend to see inadequately addressed:

Key Issue: Intellectual Property (IP) Protection: While the majority of technology companies have filed initial patent applications to protect their platform and lead products, questions of prior art and freedom to operate are often unanswered. Regional IP and marketing strategies are not always aligned, and the importance of having a reliable process in place to capture and protect existing “know-how” and identify future patentable inventions, is sometimes underestimated. The old adage of “you can’t sell what you don’t own” comes to mind, and demonstrating that a company has a solid intellectual property strategy that goes further than an initial patent filing can be a key competitive advantage in the search for funding.

Key Issue: Regulatory Affairs: While the importance of regulatory requirements as they relate to clinical product development is generally recognized, some companies with products in pre-clinical development underestimate just how much time and money a well thought out registration strategy, even at this early stage, can save. In addition, it is nearly impossible to accurately estimate the development costs and timeline for a product without having put together a registration strategy and, as a result, projected earnings and cash flows may be inaccurate. Looking at the registration path for already marketed products in similar indications can give invaluable insight as to what type of data regulators will expect for a drug that is still in development. Regulatory affairs is all about understanding the rules

and how to adapt them to a specific product by applying a well thought out scientific rationale. An experienced, external regulatory affairs advisor with expertise in registering products in target markets can be worth his/her weight in gold, and initiating regular discussions with such an advisor early on provides added insurance that a company is on the correct path, especially at a time where there are seemingly many possible avenues open.

Key Issue: Manufacturing: It is said that “the devil is in the details” and we find that this is certainly true when it comes to manufacturing. This is especially a topic for biotechnology companies who are in advanced preclinical development; a point in time where initiating discussions with a contract manufacturer who is qualified to produce a technical batch and who will work out initial scale up issues, can save a lot of time, headaches and money. A company that can demonstrate that it has a plan to address questions of stability and quality control (including efficacy testing for clinical trials material prior to batch release) will have a much easier time with regulatory authorities, investors or development partners.

Market Potential:

Most development companies have a good understanding of the general target markets for their products. In some cases, however, management can be too optimistic when it comes to estimating market penetration and the number of patients that may benefit from a given product.

Key Issue: Overestimating the Market Potential: An honest look at the efficacy and safety proof of concept available for a given product, paired with a realistic assessment of the competition, goes a long way in correctly estimating the product’s ultimate position and success within a given market sub-segment. When it comes to assessing the competition, it is important to consider not only products that are currently on the market, but also those products that will be approved by the time your product is ready for market entry. In addition, issues such as cost of production and product pricing as well as reimbursement by insurers and hospital formularies are potentially critical to a product’s market success and need to be addressed. Needless to say, they present yet another excellent opportunity to set a company apart from the competition with a relatively small amount of effort.

Conclusion

We hope we have provided you with a few helpful hints on how you can distinguish your company in the eyes of investors and development partners. If you would like to hear more about the “Venture Valuation” approach to high growth company valuation, you can find additional information on our company website at www.venturevaluation.com. In addition, the customized, onsite workshop, that we conduct as part of each company valuation we offer, can be an invaluable tool to help identifying hidden assets and value drivers specific to your company. During the valuation process where you work directly with our experts, you can develop value-based management strategies aimed at highlighting strengths and addressing weaknesses prior to approaching the investor or partnering circuit.

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