

## Heads of Terms

Welcome to issue 6 of *termsheet*, PharmaVentures' quarterly publication providing the latest opinion, news and insight into the global dealmaking space for the healthcare sector.

June sees us heading to Boston for BIO, the major dealmaking event of the year. This year, many of the 20,000 key players in our industry will gather to initiate new deals, progress ongoing deal discussions and close out negotiations. The one thread that ties all these discussions together and goes across all therapy and technology areas is "value". The value of any asset in any deal continues to be the area of most concern to the parties involved. Somewhat surprisingly, many companies looking to do a deal leave the valuation of their asset far too late in the deal process or even adopt a deadly "let the market decide" approach which leaves them in a weak negotiating position. Nobody sells their house (probably their most valuable personal asset) without getting an expert to value it and similarly no company should contemplate selling or licensing their IP or asset without obtaining an independent view of the value and how that can be apportioned between the parties in a deal.

At PharmaVentures, we have been providing valuation expertise for 20 years and have seen the complexity of deals change enormously over that period. The multitude and complexity of terms (and parties) within a deal, all of which will drive an element of value for buyers and sellers, mean it is imperative that you understand the total value of your asset and how that value is distributed in the deal terms so that you can be sure the full value for your investment is realised. It may seem like a minor thing to relinquish a fraction of a percentage point in a royalty stream during deal negotiations to overcome a roadblock but it could represent several tens of millions of dollars or more in value. Your investors or shareholders would expect you to negotiate retention of that value elsewhere in the deal terms. Knowledge of the interplay between the various value components is vital.

PharmaVentures pioneered teaching the industry the techniques and tools for valuation and negotiation and I recently led the first of a series of workshops in this area. We had representatives from top ten pharma companies to new biotechs all looking to equip themselves with the latest thinking on valuation of their assets and negotiating their deals ready to put it in to practice at BIO.



I look forward to seeing many of you in Boston and discussing how you are growing your businesses and the challenges you face. Please contact us through the links in this newsletter or our website if we can help your business with any aspect of your dealmaking.



Dr Fintan Walton  
Chief Executive, PharmaVentures Ltd.

## A View of the Future? Diagnostic Imaging – A Hot Dealmaking Area!

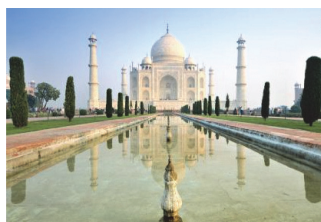


The diagnostic imaging industry is experiencing a boom in investment propelled by growth in Emerging Markets and product innovation. Both producers (such as Siemens and GE) and service providers (eg. private imaging centres) are benefiting from this buoyant environment. For example, the \$5bn Chinese diagnostic imaging market is projected to grow by 10-15% a year to 2015 from equipment upgrades and over 4,000 new hospitals to be constructed over the next five years. In services, private diagnostic centres are rapidly expanding in Emerging Markets, as is the private managing of radiology departments in new Public Private Partnership hospitals. On the product side, there has been a lot of investment activity into enhanced versions of existing modalities as well as developments in ultrasound and radiowave imaging. All this activity is attracting much interest from investors and companies seeking to capitalise on the growth opportunities in this area.

PharmaVentures is especially active in this sector in both the product space and the service space. We are working with a number of clients providing advisory services to developers of game changing imaging technologies and providers of diagnostic services in high growth markets. We anticipate continued growth in this area for at least the next 3 to 5 years.

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# Emerging Markets: Should You Look There To Do Your Next Deal?



An increasing number of western healthcare businesses are looking to expand activities into Emerging Markets. With stagnation of economic growth in the United States and Western Europe and financial restraints forcing cutbacks in health spending, companies are viewing emerging markets as the biggest growth areas for the next decade.

It is important not to confuse healthcare spending with medical innovation. The capacity to innovate relies somewhat on a history of investment in appropriate infrastructure. This infrastructure still lies in Western economies such as the USA, UK, Germany and France with China, India and Brazil some way behind. The investment dynamics do mean that countries such as China and India will overtake the established innovating territories in years to come. Balancing these factors and other considerations are important for any company looking to Emerging Markets as the place to be dealmaking.

At PharmaVentures, Ping Shek has authored a white paper titled "Opportunities in Emerging Markets". The paper provides a useful overview of the Emerging Market opportunity and includes analysis of the financial performance of selected players and benchmark valuation metrics. The paper also sets out a framework that can help companies determine a strategy that is aligned with the broader growth strategy of life science/healthcare companies and some key transaction considerations for doing deals in these territories.

Download the White Paper at [http://files.pharmaventures.com/presentations/EM\\_Opportunities\\_April\\_2012.pdf](http://files.pharmaventures.com/presentations/EM_Opportunities_April_2012.pdf)

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## More Transactions Mean More Analysis; Pharmaventures' Team Grows



### Elena Lovo

Analyst

Elena has recently joined PharmaVentures working with the Corporate Advisory Team as a Business Analyst. After working with Professor Robert Gallo, the co-discoverer of HIV, in the USA and obtaining an MSc in Biotechnology from San Raffaele University (Italy), Elena went on to pursue a PhD in

Immunology at Imperial College London working on the initiation of immune responses to viruses. Prior to joining PharmaVentures, she conducted KOL interviews and market research as a freelance researcher and she is now bringing her experience to both the Corporate Advisory and the Transaction Teams. Elena speaks four languages which, along with her multicultural experience, especially resonate with the global character of PharmaVentures' assignments and add value to the already strong expertise we offer.

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featured service

## PharmaVentures M&A Activities Grow

PharmaVentures' M&A expertise is now internationally recognised as the most effective way to sell one's business.

Building on its success in M&A with the sale of seven R&D and manufacturing businesses over the past 4 years for five major pharmaceutical and chemical companies, PharmaVentures' activities continue with a further three manufacturing facilities on three continents being divested for three major pharmaceutical companies. Moreover, another two manufacturing facilities are being assessed by PharmaVentures for divestment on behalf of one of its major clients.

PharmaVentures is also actively selling a medical diagnostics services business, in the Euro-Asia region.



Divestment of  
three secondary  
manufacturing sites




Advisors to  
UCB



Divestment of  
R&D facility  
to




Transaction advisors to  
Merck & Co.




Divestment of  
two R&D sites  
£2.2bn



Transaction advisors to  
sanofi-aventis



Divestment of Helsinn  
Chemicals Ireland Ltd



Transaction advisors to  
Helsinn Group

If you are interested in how we can help  
you please contact:

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## BioTrinity – PharmaVentures Supports Record Breaking Conference



### Newbury, UK

For the 6th year, PharmaVentures actively supported BioTrinity, the biggest partnering event in the UK for the pharmaceutical, biotechnology and investment communities. This year saw record breaking numbers of attendees take advantage of keynote addresses from Sir William Castell of The Wellcome Trust and Sir Andrew Dillon, CEO NICE. In the panel section, Adrian Dawkes led a discussion exploring how to create value from buy-outs and spin-outs with key contributions from Mark Bamforth (Gallus), Gunnar Staaf (Crystallics), Iain Buchanan (NOXXON) and Sunil Shah (Piramal) who were all able to give different perspectives from their own personal experiences covering how to raise investment, IP strategies, management buy outs and growing a successful business.

As usual, PharmaTelevision was present to record key interviews with industry leaders including Darrin Disley, CEO of Horizon Discovery who were recently awarded the Queen’s Award for Enterprise; and Kevin Johnson of Index Ventures following the announcement of their recent investment initiative alongside GSK and J&J.

For further information visit [www.pharmatelevision.com](http://www.pharmatelevision.com) or contact Fiona Gardner, Producer, PTV [fiona.gardner@pharmaventures.com](mailto:fiona.gardner@pharmaventures.com)

## conference update

- ▶ **BIO International Convention**  
18-21 June, Boston, USA
- ▶ **BioPartnering Future Europe**  
7-9 October, Brussels, Belgium
- ▶ **IP Business Conference**  
24-26 June, Cascais, Portugal
- ▶ **BioEurope**  
November 12-14, Hamburg, Germany

To meet with PharmaVentures’ experts at any of these conferences, please contact:  
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## Broadvector

PharmaVentures has been engaged by Broadvector, a highly innovative Australian biotechnology company developing a revolutionary, minimally invasive orthobiologic therapy for treating hip implant failure due to aseptic loosening. Aseptic loosening is a debilitating condition where the bone into which a prosthetic implant is mounted is gradually replaced by non-bone tissue. The prosthesis consequently becomes loose, resulting in chronic pain and severely reduced mobility. The current treatment for aseptic loosening is revision surgery, a major procedure where the old prosthesis is removed, the non-bone tissue removed and a larger prosthesis fitted into the enlarged cavity. The significant morbidity and mortality risks associated with revision surgery preclude many elderly sufferers. With the global rate of prosthetic hip implantation now exceeding one million hips per annum and approximately 10% of hip implants having to be surgically replaced within 10 years due to aseptic loosening, new treatment options are urgently needed.

Broadvector’s technology, called Gene-Directed Enzyme Prodrug Therapy (GDEPT), is a revolutionary non-surgical approach where a gene sequence encoding a therapeutic enzyme is first administered in a non-replicating and non-integrating form into the tissue responsible for the loss of joint strength, followed 48 hrs later by a single injection of CB1954, a small molecule prodrug, which is then converted to the active drug in the target tissue. The active drug removes the non-bone tissue associated with the loosening, allowing the original prosthesis to be re-aligned and re-cemented into place without the need for open surgery. It is anticipated that this new, minimally invasive, non-surgical approach for aseptic loosening will provide a safer procedure applicable to a wider range of patients, including many who cannot undergo revision surgery. GDEPT has the potential to be highly cost effective due to the non-surgical approach and significantly reduced recovery times.

The therapy has successfully completed a Phase I trial in association with the Leiden University Medical Center in the Netherlands and will now be progressed by Broadvector through Phase II efficacy trials. We would like to hear from pharmaceutical, medical device and orthobiologic companies interested in learning more about this technology.

In the first instance, please contact:  
Kate Moore  
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# Valuation Resources

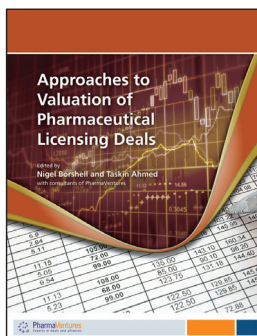
When determining the value of your asset, it is vital to have the best resources available at your fingertips. Top pharmaceutical and biotechnology companies have over the last 20 years trusted PharmaVentures to provide timely, reliable and insightful data and information. In addition PharmaVentures' consultants provide independent expert valuation services. For those who wish to undertake their own valuation exercises or better understand the methodologies behind valuation, we offer workshops and regularly publish key materials for dealmakers including:

**The Royalty Rate Report 2012: A Comprehensive Assessment of Valuation in the Pharmaceutical Sector** provides an in-depth analysis on pharmaceutical royalty rates. This definitive report provides the most up to date interpretation of royalty information backed up with case studies of recent deals. It introduces methods for calculating useful financial data missing from the public domain, but essential for dealmakers in benchmarking and determining value in your deal and its relationship with future royalty streams. The report also presents findings from PharmaVentures' extensive market research into royalty rates and includes access to a recorded webcast on calculating effective royalties by the author of the report, Nigel Borshell.



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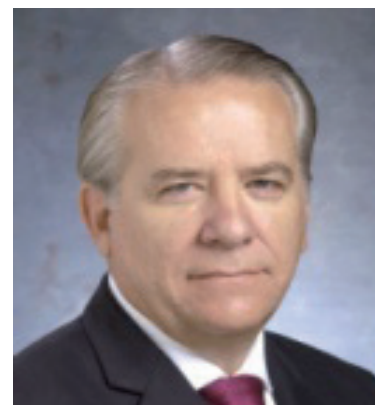
**Approaches to Valuation of Pharmaceutical Licensing Deals published in 2012** provides deal negotiators a solid grounding in how to use accepted and reliable methods, such as benchmarking and expected net present value, for valuing pharmaceutical and biotech projects. The report provides the essential framework for understanding and calculating both the value of a project today and how that value can be built over time. Potential components of deal structures are also discussed, as are the appropriate levels of risk and reward sharing and the significance of individual company needs and preferences.



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**Workshops 4-5 July, Oxford**  
**Calculating and Negotiating Financial Terms for Licensing Agreements**  
 PharmaVentures' authoritative workshop series, led by Dr Fintan Walton, CEO and Nigel Borshell, VP, PharmaVentures, explores the various approaches used in calculating and negotiating financial terms in dealmaking. Over a two day course, delegates learn current methods to determine value and financial terms for drugs at various stages of development. As well as exercises and case studies delegates also receive individual coaching from PharmaVentures' experienced industry dealmakers on the right strategies for assessing and structuring value, how to develop robust arguments for value and how to defend valuation and financial terms. The workshop also includes an opportunity to practice learning in a real face-to-face negotiation exercise.

To secure a place on the next workshop contact:  
**Oscar Tuttle, Senior Account Manager**  
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## Charles MacFarlane

Board Member

Mr Macfarlane is formerly of Procter & Gamble Company having spent 40 years primarily in the International Divisions, starting in consumer products marketing and later in general management. During this period he has lived and worked abroad in Rome (66-71), Brussels (71-75), Toronto (75-81), Paris (86-91) and London (91-96 and 98 to August 2006).

Mr Macfarlane transferred to join the group that led P&G into the Pharmaceutical industry in 1978. In 1985, he led the successful acquisition of the French pharmaceutical group, Nativelle, for P&G, and went on to serve as its President for six years in Paris. From this position, he also served as P&G's pharmaceutical executive responsible for Southern Europe (86-91). In 1991, he established the pharmaceutical Business Development role in Europe and relocated to London (91-96).

In 1996, Mr Macfarlane returned to the US where he took over his last responsibility for all Alliance, Licensing and Acquisition activity of P&G in the expanded Health Care Global Business Unit (incorporating Pharmaceuticals, OTC medicines, Oral Care, Iams Pet Care, and Pur Water Treatment). While retaining this global responsibility, he returned to London in 1998.

While in Paris, Mr Macfarlane was active as a Board Member and Director of the American Chamber of Commerce in Paris (86-91). In London he was the founding Chairman of British American Business Inc's. EU Trade and Investment Policy Committee and now serves as the head of the Policy Group. He is a member of the Board and Executive Committee of BABi.

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