

Heads of Terms

Why licensing and partnering activity should remain steady in 2020



Dr Fintan Walton
Founder & Chief Executive

In my experience of over thirty years in deal making, companies who were most active and persistent in their deal making activity through both ups and downs tend to be more successful. An analysis of licensing after the 2007/8 crash shows that sentiment was shared by the industry as there was little let up in both the number of deals done and the upfront values negotiated.

In fact, licensing has brought the biggest rewards to the most active licensors and licensees. Significant research has been funded by both venture capital and pharma licensing deals over the past 30 years which has given rise to significant breakthroughs in treatments for the greatest areas of unmet clinical need. The pipelines of pharma rely more than ever on innovation coming from smaller venture-backed biotech companies. This significant and diverse resource from biotech companies of patented technologies and products provides the lowest form of risk for the larger pharma companies building their vital clinical pipelines.

As drug development is a long-term effort, pharma companies realise that their future superior commercial position and competitiveness in the post-pandemic market will be based on the deals they do today and not the ones they have delayed to tomorrow. They understand that delaying decisions on opportunities will only allow their competitors to seize the best ones. Additionally, they realise delaying will eat into the valuable patent lifetime and the consequent loss of revenue of these technologies and products.

Most biotech companies understand that stalling their out-licensing activities will result in their products losing their innovative appeal and become less attractive to pharma companies and at best be placed at the back of the line when they eventually go out to partner. The resulting lack of interest from pharma could impede further rounds of equity investment as these often go hand-in-hand.

We are currently running over 20 licensing and M&A mandates on behalf of clients and have seen continued activity across the board. This is because our industry is truly global, and we are used to working as teams across significant distances and time zones. With advances in communication technology lockdowns and working from home should not impede our ability to do deals as a significant part of the processes and analytics are done virtually these days or are outsourced to specialized advisors. Those that continue dealing making will be in pole position to be successful.

Industry Insight

M&A in COVID-19 environment and beyond

Keeping your perspective



Robert Gebhardt
Managing Director

As you are aware PharmaVentures is a sector focused advisory firm and we are at the forefront of deal-making activity in the pharmaceutical, biotech, medtech and service sector industries such as CROs and CDMOs. Given the current backdrop and challenges facing companies executing live transactions or contemplating entering acquisition or divestment processes, we thought it may be useful to share with you our thoughts on the current deal-making environment and what we see in the 'trenches' of ongoing processes for our clients.

We are currently executing over 20 M&A and licensing transactions across the globe for targets of various sizes and all these processes are moving forward with some minor adjustment to timetables and deadlines in some instances.

In the last few weeks as various restrictions around movement of people and lockdowns have been put in place in the wake of COVID-19 around the world our clients and ourselves have had to re-think and re-organise workflows to adjust to a new working environment. Broadly speaking, we can say that the initial adjustment has taken place swiftly and the projects we are advising on behalf of our client have not been disrupted in any major way. The successful adjustment to a new 'operating environment' is a testament to client's business contingency planning and robust process management.

Beyond the immediate operational impact of COVID-19 we would like to reflect on the appetite for M&A by companies. It is clearly too early to draw conclusions on all the consequences of COVID-19 on the economic outlook and financing environment. However, what we can say with confidence is that COVID-19 will impact different sectors of the economy to varying degrees. In the pharmaceutical and biotech sectors for example we feel that the fundamental rationale for M&A and licensing will not diminish, if anything we anticipate that companies will accelerate deal making in the next 6-18 months to capture value and grow pipelines.

Strategic buyers may pause for thought for a few weeks while considering options but will broadly continue with ongoing processes and will be on the lookout for future deals. Based on our ongoing processes, strategic buyers have not withdrawn from transactions or due diligence and in rare cases just paused it for practical reasons. We anticipate that majority of strategic buyers will continue with current processes and in some cases may request extended timelines to reduce risk around potential short-term delays and to crystallise the possible impact of COVID-19 on target businesses. The current environment also provides an opportunity for companies to refresh and refocus strategic priorities and prepare for the uptick in deal-making activity when short-term delays to business processes are eliminated over the next few months. We anticipate that for some larger companies and private equity houses accelerated disposal of non-core assets will help replenish cash reserves and achieve efficiencies.

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M&A in COVID-19 environment and beyond



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Private equity buyers are still actively engaging with targets and see current public market volatility as an opportunity to review deal terms and earn-out structures. Significantly tightening financing conditions may be one of the side-effects of a deeper and protracted economic downturn. However, the consensus base case for majority of investors we spoke with seems to be that the economy will resume growth after a rather deep but short-lived recession over the next 1-2 quarters. Government stimulus packages and financial relief programmes for selected sectors including banks have been announced, which should help creditors and financial institutions reduce the likelihood of a liquidity crunch and broader financial contagion. Although we are facing the effects of significant supply shock in the major economies, we are not likely to be facing an extended demand-side driven economic downturn similar to the 2008 financial crisis. Therefore, the hallmarks of a relatively quick recovery are present and PE funds are generally well positioned to take advantage with historically high dry powder to deploy.

For sellers of assets the key challenge is not to lose sight of the overall objective and continuing with preparatory and marketing processes for assets to be able complete a deal in the next few months as the general backdrop improves. Sellers should generally avoid having to stall processes and loose initiative and momentum as by stopping and bringing assets back to market at a later stage, they may find that they are at the 'back of the queue' for potential buyers. In the current environment, the underlying assumptions for valuations may need to be reviewed but as processes move forward the underlying conditions will likely improve and at that point sellers can justifiably propose to review the deal terms. After all, sellers will ultimately retain control over the pace and outcome of the sale process and can always decide to put the process on hold or slow down proceedings as they anticipate improving market conditions.

Key takeaways and conclusions

- ▶ COVID-19 represents a significant challenge to the global economy, businesses and deal-making in general, but its impact is likely to slow down pharmaceutical and biotech companies in their pursuit of their M&A strategy but not stop them in their tracks.
- ▶ As and when COVID-19 pandemic is under control in key markets over the next few months (trajectory in US China and Europe will be relevant indicators), buyers and sellers will be resuming negotiations vigorously. The companies and investors best positioned to capture deals will be the ones that are undeterred by current challenges and design processes carefully to take advantage of the next window of opportunity. Moving ahead with processes despite current challenges and retaining optionality is the key to optimising outcome as the outlook is expected to improve over the next few months
- ▶ Companies aborting or putting sale processes on hold may risk losing momentum and missing out on striking deals when activity resumes.
- ▶ We anticipate that the unfolding environment will be favourable to PE activity and strategic buyers that do not lose their perspective on overall objective and see past immediate headwinds.

If you'd like to discuss your M&A plans with our specialist and highly experienced M&A team then email our Managing Director Robert Gebhardt at robert@pharmaventures.com

Join the Team

Opportunities to join our world class team

Business Analyst

PharmaVentures is looking to recruit a Business Analyst to provide transactional support for financing, M&A and licensing engagements with pharmaceutical, biotechnology, MedTech and diagnostic (Life Sciences) companies, products and technologies, especially in China and Asia-Pacific.

For more information, visit the [job page](#) or www.pharmaventures.com

PharmaVentures in Action

13th Annual European Life Sciences CEO Forum 2020, Zurich

Dr Fintan Walton chaired the 'Pharma Dealmakers Roundtable' panel with a number of leading industry experts. The panel discussed in some depth how corporate strategy and business models influenced and shaped their licensing and M&A activity. It became clear that corporate positioning in the deal making market was essential to remaining competitive and to winning deals.



Dr Fintan Walton, CEO, (far left) chaired the 'Pharma Dealmakers Roundtable' with the following experts (L to R):

Holger Schwarz

Head of Global Search & Evaluation Discovery Technologies, Merck Healthcare KGaA

Michael Crowley

Head BD for Pharma Research & Early Development, F. Hoffmann-La Roche Ltd.

Mike Romanos

Co-Founder & CEO, Microbiotica Ltd.

Patrick Benz

Sr. Director Alliance Management, The Janssen Pharmaceutical Companies of Johnson & Johnson

Sascha Bucher

Head of Global Transactions, Member of the Roivant Investment Team & Head of the Basel Oce, Roivant Sciences GmbH



Michael Crowley, Head BD for Pharma Research & Early Development at Roche sharing the lighter side of his dealing making with our CEO, Dr Fintan Walton (middle) and the rest of the panellists.

LSX World Congress 2020, London

PharmaVentures presence was visible throughout the event with our experts Adrian Dawkes, Mark Andrews, Robert Gebhardt and Summer Park participated in moderating a number of interesting panels discussions.



Adrian Dawkes (far left), Managing Director, moderated: Are we there yet? Navigating the roadmap in early-stage partnerships panel along with (L to R):

Tomas Landh, Innovation Sourcing Vice President, Novo Nordisk; **Sergio Capancioni**, Director S&E Western Europe, AbbVie; **Catherine Pickering**, CEO, iOnctura; **Rick Davis**, Senior Director, New Ventures & Transactions- Oncology, Johnson & Johnson



Mark Andrews (far right), Managing Director, moderated: The Key Learnings from the M&A Market panel along with (L to R):

Peter Ullrich, CEO, Titan Spine; **Eline Vrijland-Van Beest**, Co-Founder, Nightbalance; **Chas Taylor**, CEO, Vervan Medical; **Andrew Glass**, Regional Director Northern Europe, Abbott; **Vanessa Vankerckhoven**, CEO and Co-Founder, Novosanis

Robert Gebhardt, Managing Director, moderated: Partnerships & Deal Making Panel.

Summer Park, Senior BD Director, moderated: Keynote Fireside Chat: New frontiers – Taking Asian Medtech global Panel.

Conference Update

Due to the cancellation of many of the major conferences over the next few months we hope to meet with new and existing clients via the virtual platforms that many are now offering in place of their conferences. Please look out for our future announcements.

If you'd like to meet us separately by telephone or video conference, then please email us at enquiries@pharmaventures.com