

# Biotech “Swimming” Downstream

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- **Means different things to different people**
- **Move away from Research / fee for service business model**
- **Fundamentally, involves retaining downstream rights**
  - Development / Co-Development
  - Manufacturing
  - Marketing Rights (Worldwide, Regional)
  - Co-Promotion / Marketing

# Rationale for “Swimming” Downstream

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- **Readily apparent**
  - Greater asset value retained — Greater market cap
- **Is Nothing New**
  - Centocor obtained Co-Pro rights in 1992 (Centoxin, Reopro)
- **Is broadly accepted by Pharma Co’s**
  - A necessary “evil” it has to bear
- **Can be high risk**
  - Expensive
  - Miss out on lucrative deal
  - All or nothing strategy

# Watch Out for Strong Currents!!

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- **Development expensive - are sufficient funds available in short → long term**
- **Is company stretched to detriment of other programs (maintain portfolio)**
- **Retention of manufacturing - expensive**
- **Pre-launch commercial costs - timing and availability of funds**
- **Experience Issues - Development, Regulatory, Manufacturing, Commercial**

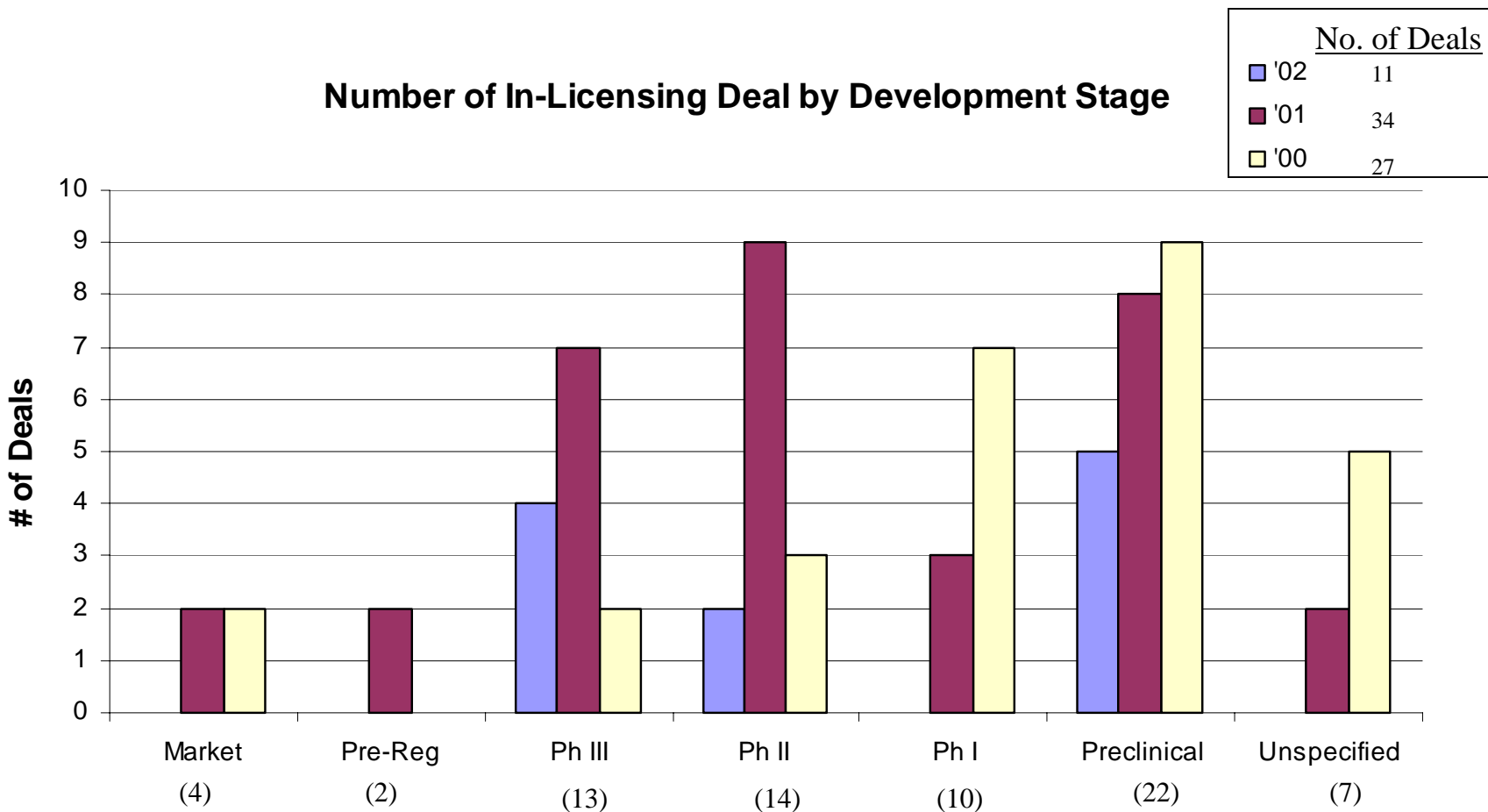
# Why is Big Pharma “Up for This”?

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- **It has no other choice!!**
- **Weak pipelines (unproductive R&D)**
- **Thirsty for new products**
- **Generic exposure**
- **Competitive licensing arena**
- **Focus on late stage licensing assets**
- **The only way to win the deal**

# Competitive Pressures: Many Companies Chasing Few Deals

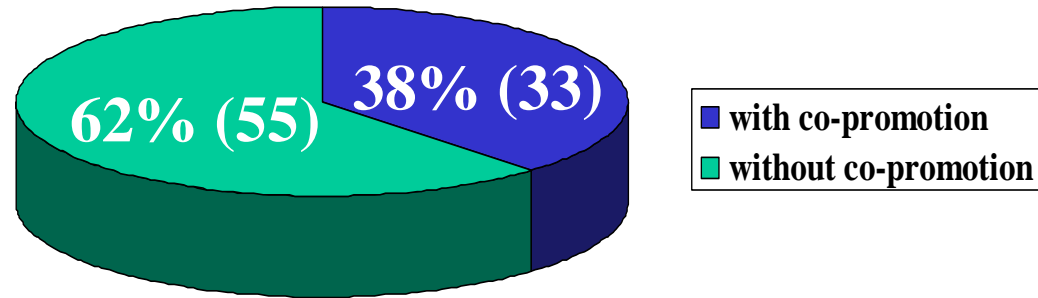
Number of In-Licensing Deal by Development Stage



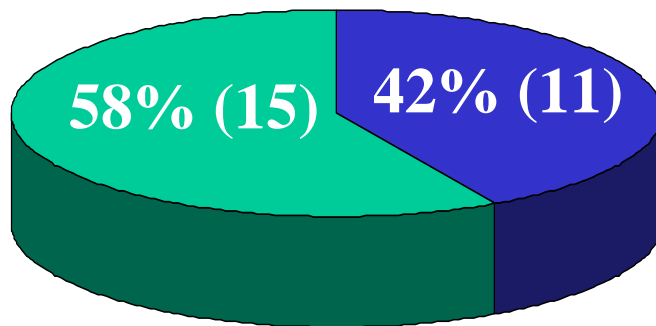
source: Windhover

# '00 - '02 YTD Licensing Deals

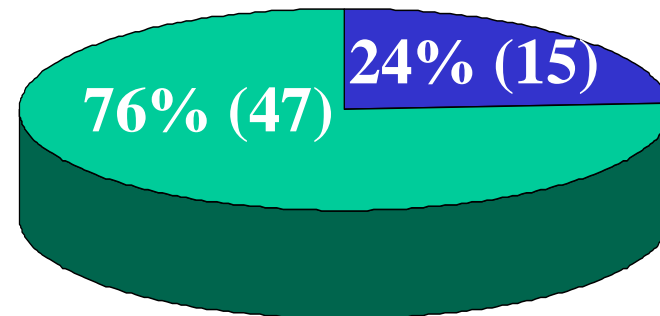
## Total Deals (88)



## Phase III and on (26)



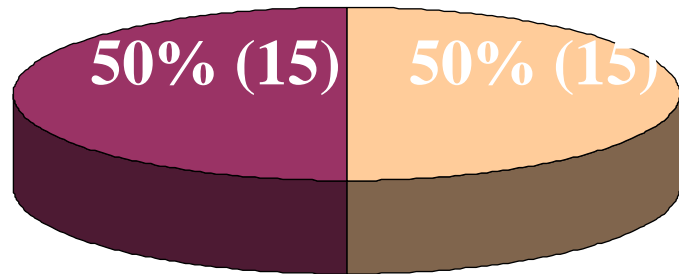
## Pre-Phase III (62)



Source: Windhover

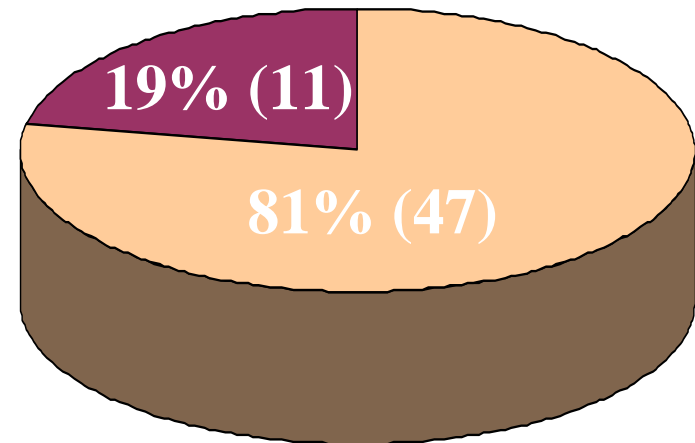
# '00 - '02 YTD Licensing Deals

## With Co-Promotion (30)



Pre Phase III  
Post Phase III

## Without Co-Promotion (58)



Source: Windhover

# Big Pharma Dilemma

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- **How much to “give away”?**
- **Can the deal make financial sense?**
- **Is there enough value to make everyone rich?**
- **P&L suffers “double whammy”**
  - **License fees and reduced profit share**
- **Field force opportunity cost trade-off**
  - **Multiple products compete for limited slots**
- **Precedent setting**
- **How far in development does a compound need to be?**
- **Early vs. late stage focus**

# Elements of “Downstream” Deals

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- **Lots of committees**
- **Lead party for Development, Regulatory, Manufacturing and Marketing**
- **Control/Casting vote issues - dispute resolution**
- **Need to get Big Pharma directly engaged - make them responsible**
- **Who books sales?**
- **Need for Biotech company to have available funds**
- **Reversion to licensing deal for lack of funds**
- **Loans (skew the deal to Biotech)**

# Can the Biotech Fish Continue to Swim Downstream?

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- **Fundamentally yes!!**
- **Reduced downstream commercial benefit to Biotech from early deals**
- **Funds available for quality compounds**
- **Pharma pipelines pressures still remain**
- **Limited availability of “quality” licensing opportunities will continue (supply and demand)**
- **However, P&L indifference will limit co-development / co-promotion deals**
- **Big pharma does have other licensing sources (Japan)**