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# **BioPartnering Europe 2002 - Alliances**

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# Here's the problem . . .

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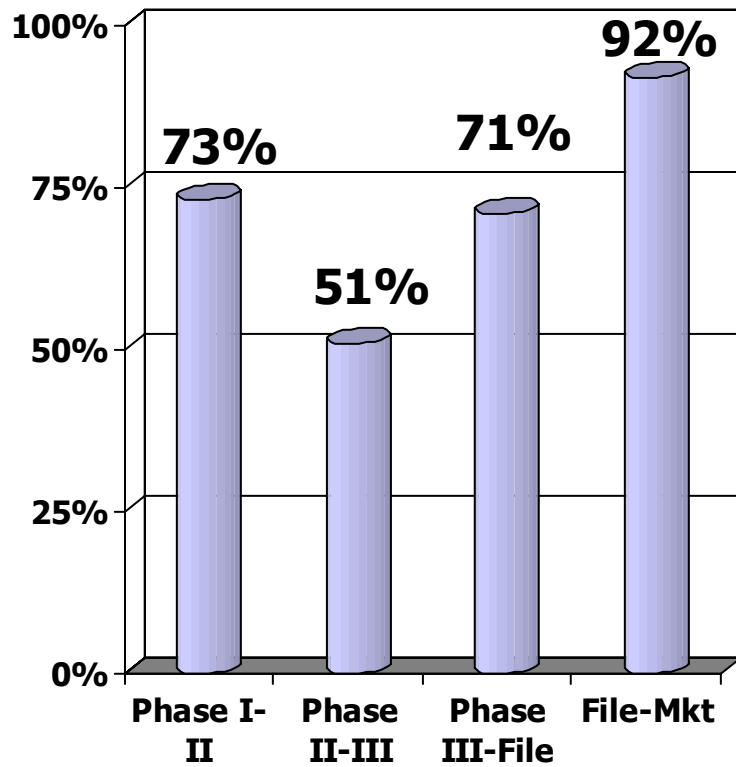
**Pharma company; \$5 billion turnover**

**Desired Sales Growth: 10%**

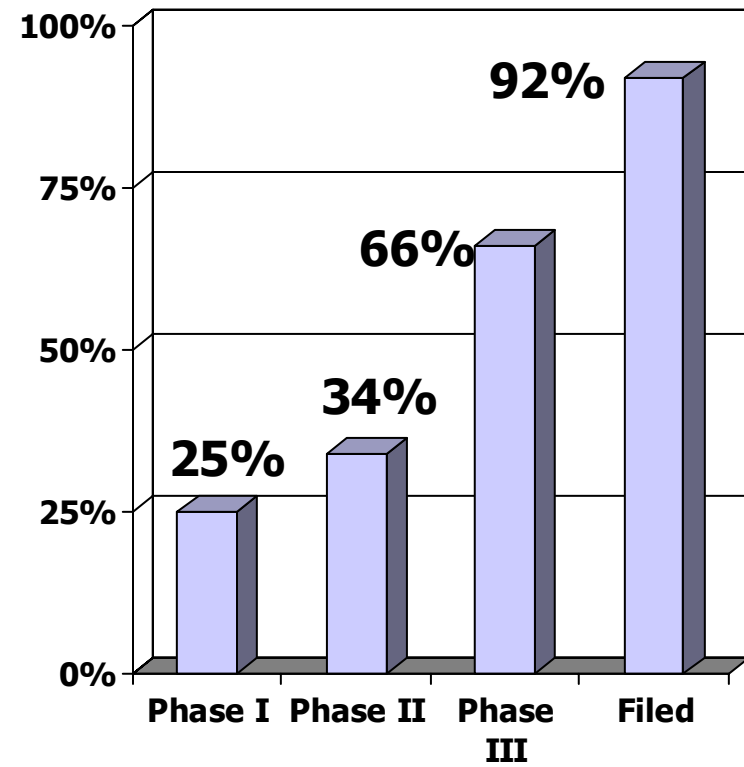
	<u>Sales (\$b)</u>	<u>Incremental</u>	<u>Equiv. # NCEs</u>
<b>Year 0</b>	<b>5.0</b>		
<b>Year 1</b>	<b>5.5</b>	<b>0.5</b>	<b>1.7</b>
<b>Year 2</b>	<b>6.1</b>	<b>0.6</b>	<b>1.8</b>
<b>Year 3</b>	<b>6.7</b>	<b>0.6</b>	<b>2.0</b>
<b>Year 4</b>	<b>7.3</b>	<b>0.7</b>	<b>2.2</b>
<b>Year 5</b>	<b>8.1</b>	<b>0.7</b>	<b>2.4</b>
<b>Year 6</b>	<b>8.9</b>	<b>0.8</b>	<b>2.7</b>
<b>Year 7</b>	<b>9.7</b>	<b>0.9</b>	<b>3.0</b>
<b>Year 8</b>	<b>10.7</b>	<b>1.0</b>	<b>3.2</b>
<b>Year 9</b>	<b>11.8</b>	<b>1.1</b>	<b>3.6</b>
<b>Year 10</b>	<b>13.0</b>	<b>1.2</b>	<b>3.9</b>

# Probabilities of Success

From one phase to the next

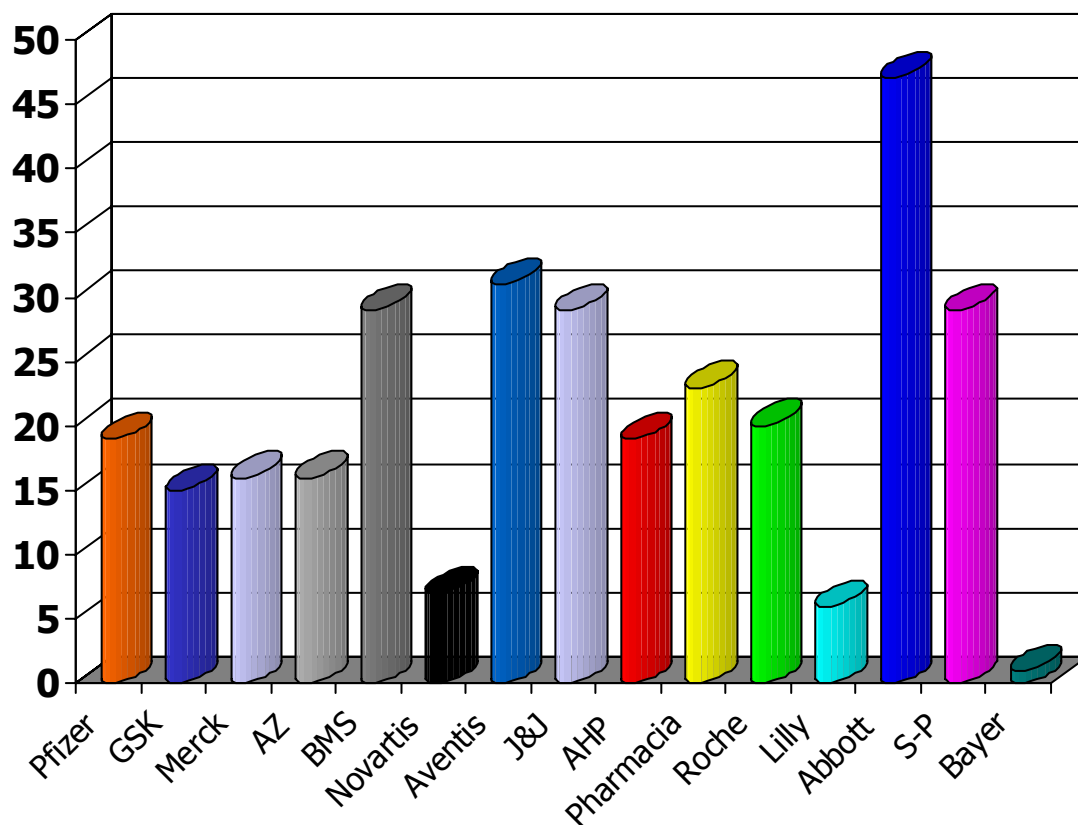


From each phase to market



# Where would Big Pharma be without Licensing ?

Licensed products (% of sales)

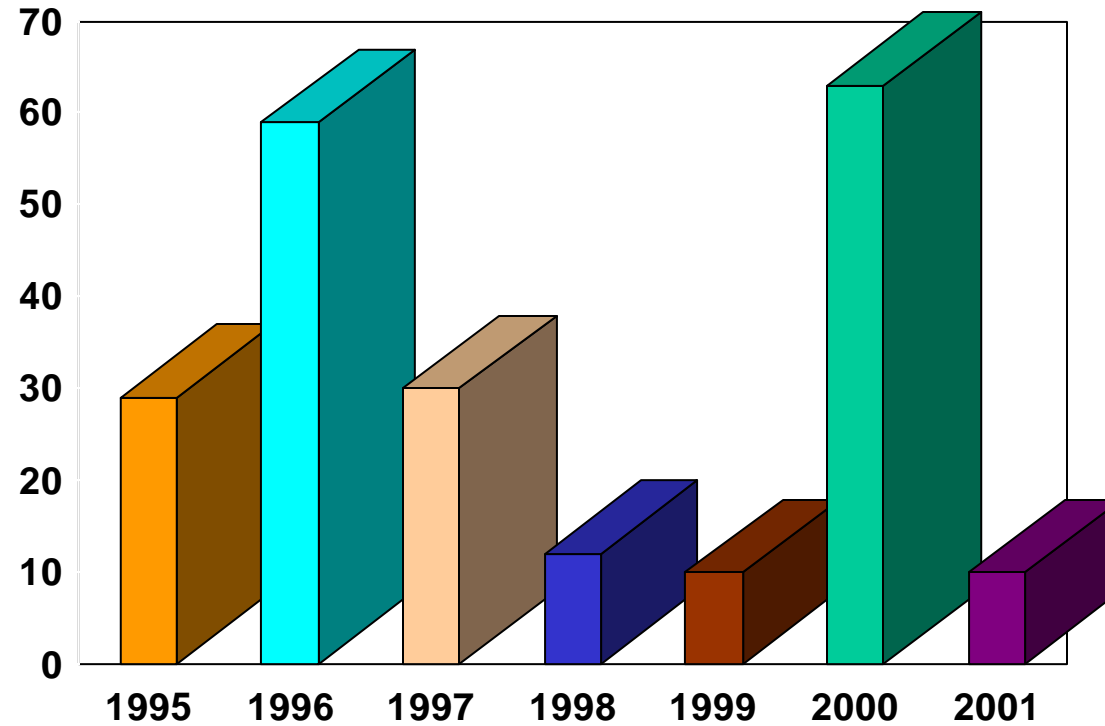


Many #1 products are licensed !

Paxil/Seroxat,  
Lipitor, Pravachol,  
Pepcid, Cozar,  
Zythromax, etc . . .

# Biotech's a Cycle ?

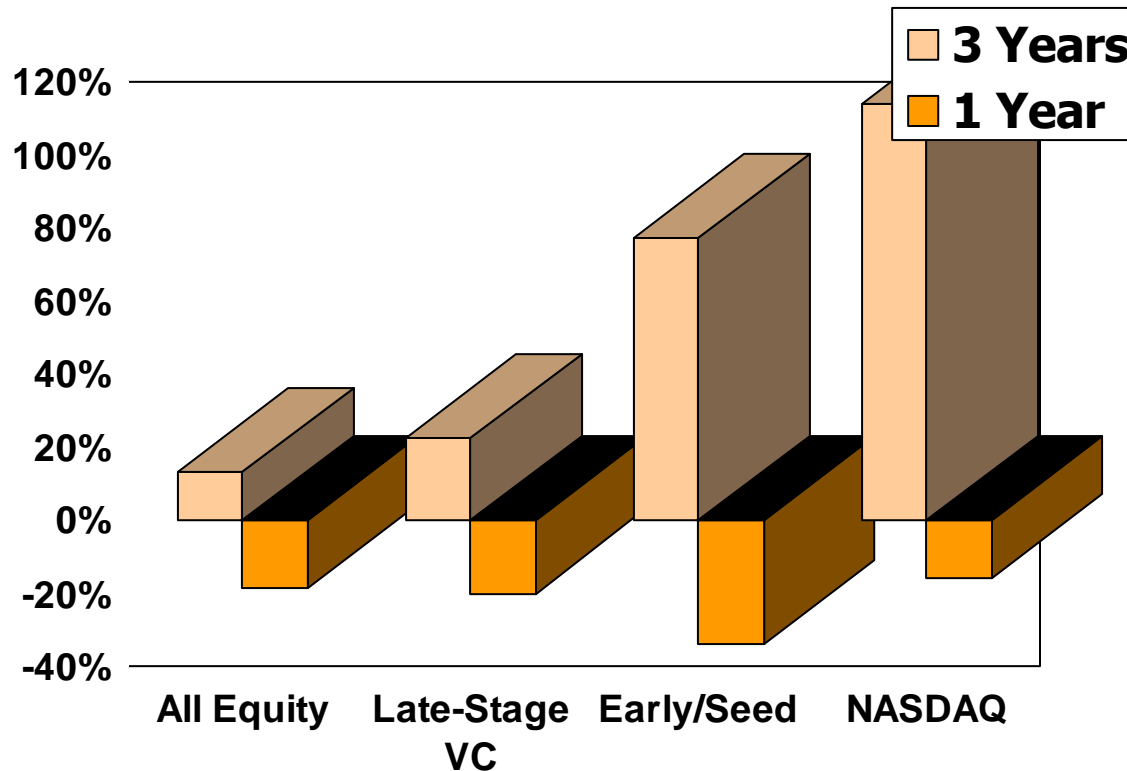
Biotech IPOs



# VCs - first loss since 1973 ?

Private Equity Returns

Performance - end 2001



What goes up must come down !!

What goes down must come up ??

Source : Venture Economics Private Equity Performance Index

# When do you license out ?

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- Clearly, value increases with development progress
- BUT,
- You need to finance the company
- AND
- It's hard to afford the risk if the company is small
- To use some fiction:
  - Phase I Deal NPV: \$50m  
x 25% = \$12m
  - Phase III Deal NPV:  
\$200m x 65% = \$130m
  - Dev. Costs: \$100m
  - Gain: \$18m, Loss \$18m
  - OR, Loss \$105m ???

# Deal Type Matrix

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Discovery Alliance

Development Collaboration

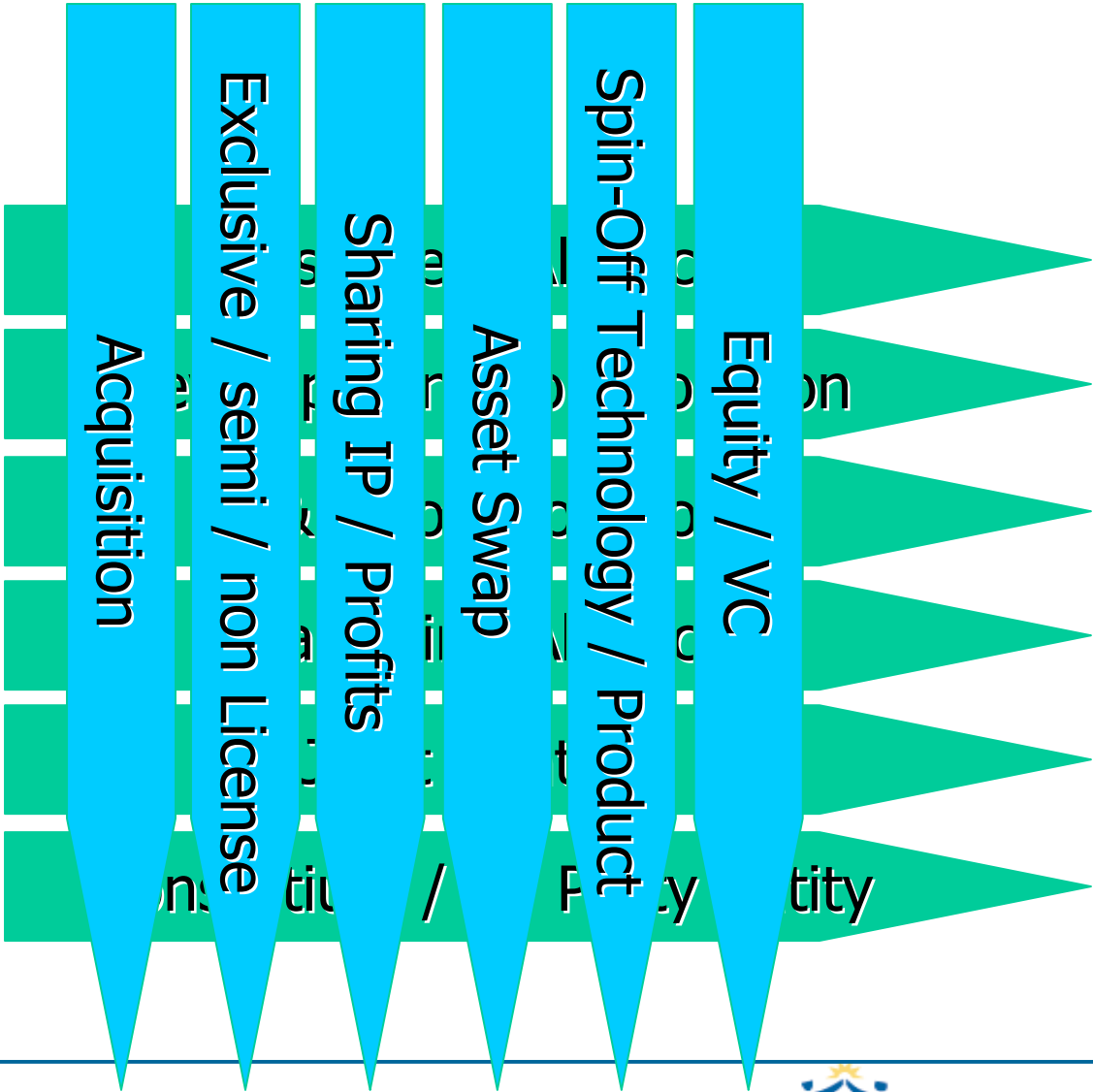
R&D Collaboration

Marketing Alliance

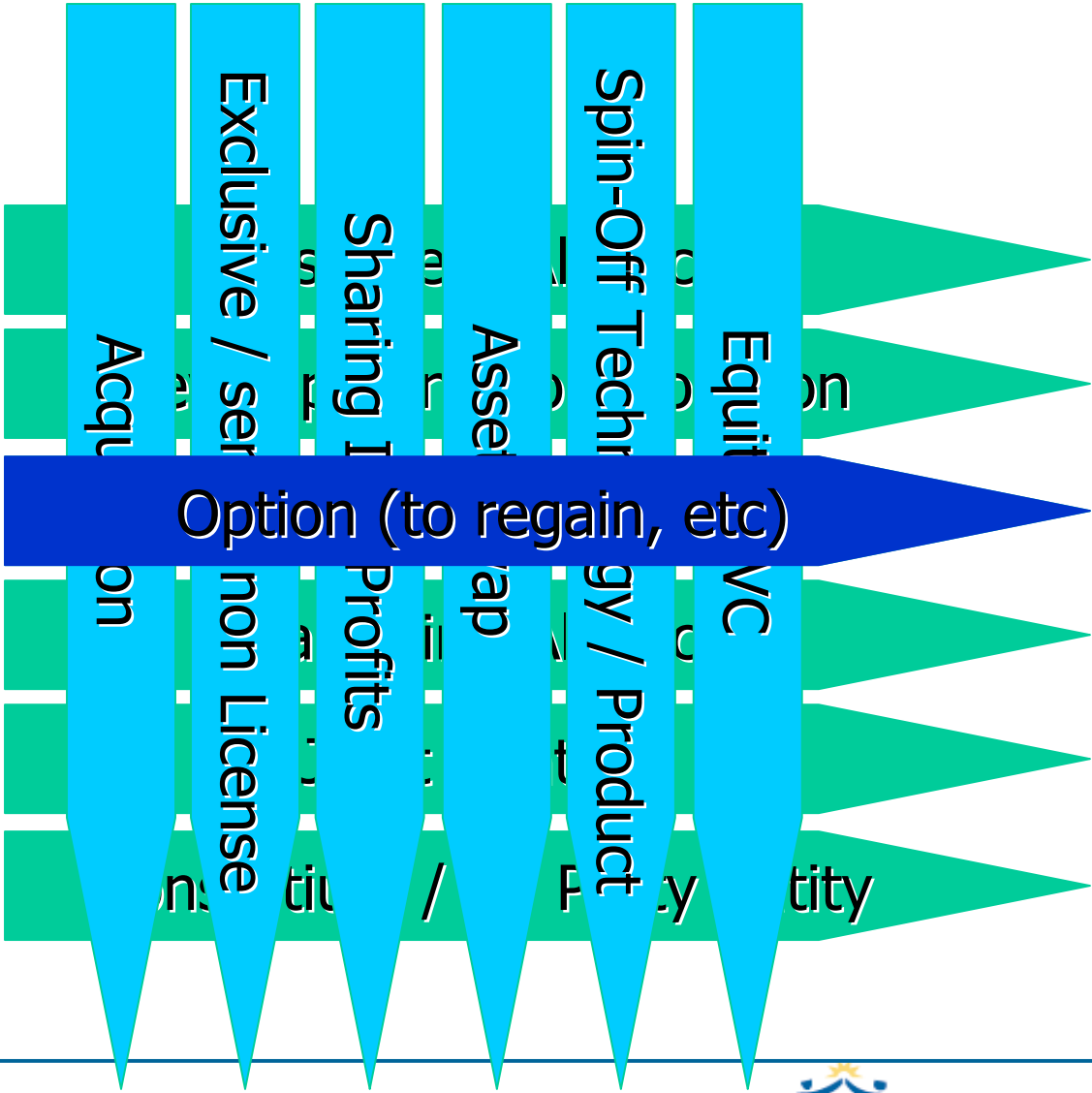
Joint Venture

Consortium / 3<sup>rd</sup> Party Entity

# Deal Type Matrix



# Deal Type Matrix



# 8 Elements Of The Deal

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- Structure
- Development plan
- Cost and profit sharing
- Regulatory responsibilities
- Intellectual property ownership/mgt
- Economic opportunities
- Governance
- Exit provisions

# Structuring the “right” Contract

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- Joint commercialisation
  - Co-Promotion vs Co-Marketing
  - Territories & decision timing
  - Joint efforts (20-50%)
  - Margin split vs Royalties
  - Auditing & remedies

# Structuring the “right” Contract

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- Developing a "best practice" in transactional agreements
  - Termination of development without termination of agreement ?
  - Right to sublicense first ?
  - Termination and reversion, royalty or milestones back from originator ?

# Structuring the “right” Contract

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- Developing a "best practice" in transactional agreements
  - Diligence obligations
  - Industry standards, internal standards
  - Escalation
  - Mediation
  - Arbitration
  - Reasonable effort definition
  - Control & cost of Patent maintenance
  - Rights & costs in patent litigation
  - Control of the Joint Development Committee
  - Etc...

# Thank you !

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