

## Healthcare industry BW

### Science to business – exit strategies for biotech companies

**In the field of biotechnology, there are many good ideas and approaches for bringing innovations to market. Nevertheless, the field of biotechnology has not lived up to the expectations which accompanied the dawn of a new era in the late 1990s. The US-style financing strategy, which involves letting ideas mature with the support of venture capital and then making financial returns when the company goes public only works in exceptional cases in Germany; this is all the more true since the collapse of the Neuer Markt in 2001. Other exit strategies are the licensing of products/services or the sale of companies to strategic investors, notably pharmaceutical companies or mature biotechnology companies. In an interview with the two directors of the consultancy firm LSCN Ltd., Dr. Alrik Koppenhöfer and Dr. Volker Ungermann, Dr. Barbara Jonischkeit from BIOPRO finds out the key issues involved in M&A negotiations and licensing deals and how LSCN supports biotechnology companies and strategic investors in reaching their goals. Both managers agree that a good dose of realism is necessary.**

How do you see the current M&A market in the biotechnology field in Germany?



Dr. Alrik Koppenhöfer: "Whether it's know-how, technology or products: pharmaceutical companies that are after a good deal are interested in anything that adds value to their own value-creation chain."

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**Koppenhöfer:** Mergers and acquisitions are still the exception. Last year, some companies landed a few big deals, CorImmuno and Aicuris, for example. But they were licensing deals.

**Ungermann:** M&A are a good option for a biotech company that has a project, and also owns a complete technology platform. Even better if this technology platform fits into the core technology portfolio of a strategic investor who plans to use these technologies exclusively – I am speaking from long experience in the pharmaceutical industry. The acquisition of Sloning Biotechnology by

Morphosys nicely illustrates how the deal meant that Morphosys became the sole source of a state-of-the-art technology platform.

**Koppenhöfer:** In addition to the requirement that a technology platform fits into an investing/acquiring company's own business, another important M&A criterion is that a technology or product must have a certain market maturity. Investors are not just seeking to obtain access to a technology, they are interested in accessing an expanded market, something that is usually achieved with the acquisition of sales companies. A third reason for M&A is "economy of scale", which means that two companies decide to merge and increase the size of their operation in order to be able to do things more efficiently and exploit synergies.

## **Who are the drivers of M&A and licensing deals? Biotech or pharmaceutical companies?**

**Koppenhöfer:** We believe that it is the biotech companies and their investors that drive M&A and licensing deals, rather than pharmaceutical companies. Biotech companies that started off with 3-4 people are interested in how they can properly address a certain market segment, how they can develop a suitable distribution model and how they can gain access to international markets. And sooner or later this has always attracted the interest of investors.

**Ungermann:** LSCN services are usually commissioned by biotech companies. Pharmaceutical companies are able to wait and make a choice.

Is this situation changing? Pharmaceutical companies no longer exclusively rely on own research. So they need to keep a careful, strategic eye on the market.

**Ungermann:** There is certainly a shift. Today, up to 60% of all new products marketed by pharmaceutical companies are licensed from third parties. What is relatively new is that pharmaceutical companies have also started to outsource a domain which they have previously regarded as their own, i.e. early R&D. This provides excellent opportunities for companies that have positioned themselves in the service area. This outsourcing wave is fairly strong. There are many reasons for this, including the increasing cost and efficiency pressure that pharmaceutical companies are feeling, which is leading them to outsource increasingly in cheaper countries, India and China, for example. But when it comes to challenging and innovative solutions, service companies from the EU and the USA have a good chance of acquiring a substantial portion of the outsourcing budget. With particularly challenging issues, pharmaceutical companies are very keen to interact with the providers of the commissioned services.

We at LSCN can support both parties: pharmaceutical companies and small, innovative service providers that are unable to compete with the offers of "emerging-market companies", but that offer services and special expertise. The small service providers offer innovative solutions to problems, they communicate interactively on an equal footing with their colleagues from the pharmaceutical industry. They know how to efficiently communicate reports and who to call when and report abnormalities. Pharmaceutical companies are willing to pay a lot of money for the time they can save through this.

In my view, the challenge for pharmaceutical companies is that they need outstanding people to be able to conduct this "orchestra of activities" harmoniously. They need scientists who find it attractive not having to carry out active research themselves, but who take on project coordinator roles and mentor other scientists from external companies. Project coordinators must be excellent alliance managers and they also need to have an excellent overview of the expertise of external service



Dr. Volker Ungermann: "We make companies fit for discussions with strategic investors."  
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providers to ensure that the R&D projects move forward efficiently.

## **Does the fact that the pharmaceutical culture is currently changing boost the biotech market?**

**Koppenhöfer:** The answer is a definite yes. Big pharmaceutical companies have business development experts, alliance management teams – entire departments that companies did not have around 15 years ago. Big companies like Boehringer Ingelheim have professional websites to promote themselves as the partners of choice for certain indications or technologies. The pharmaceutical industry realised as long as twenty years ago that it had to complement its proprietary product pipeline with external products. And pharmaceutical companies are hugely interested in anything that adds to their value creation chain and gives them a market advantage, whether this is know-how, a technology or products.

**Ungermann:** This makes pharmaceutical companies more dependent on external projects. But there are a great deal of projects and it is important to realise that, from the perspective of pharmaceutical

companies, only a very small percentage of products offers an attractive additional value. In fact, only a few projects are of interest to pharmaceutical companies and there is fierce competition for such projects. And that's the problem. Small companies that might make a deal like this once in their lifetime, will have to deal with highly trained professionals. And this is not an easy task. Take Roche for example, they have a department of experts whose sole purpose is to negotiate deals. LSCN can support smaller businesses and help them reach an equal footing in terms of professionalism and competence.



Unger mann (left) and Koppenhöfer (right) are the managing directors of Life Science Consulting Network (LSCN), which provides corporate development services and interim management.

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## Are early-stage projects also suitable for M&A and licensing deals?

**Unger mann:** Pharmaceutical companies are also becoming increasingly interested in early-stage projects. This is due to the intensive competition for promising innovations. In the past, pharmaceutical companies would wait until clinical data became available that substantiated a drug's or product's efficiency and effectiveness before they signed an M&A or licensing deal. Nowadays, they are more inclined to take risks. There is a growing trend towards a mixture of M&A and licensing deals. If I were the representative of a big pharmaceutical company who was aiming to conclude a deal for an attractive early project, I would always try to share the risk with its current owner from the biotech industry.

## How can you support a biotech company?

**Unger mann:** We make companies fit for discussions with a strategic investor. We take the perspective of a strategic investor and ensure that the companies meet the investor's assessment and evaluation scheme requirements and correctly place their hard and soft facts. We are a consulting firm with 17 partners who have all the required skills to deal efficiently with corporate development and interim management in the life sciences sector. All our partners are senior experts and have at least 15 years of management experience in the biotechnology or pharmaceutical industry. We have completed

numerous comprehensive deals and also carried out due diligence processes. I therefore believe that we are very good judges of the key drivers in licensing projects and the issues that are particularly important for strategic partners and investors. We also help biotech companies to find strategic investors. We analyse the companies, determine the assets, and help them prepare an “offering memorandum” stating the objectives, risks and terms of investment. We search and find potential partners for our clients worldwide, accompany the companies throughout the entire process, whether it is a licensing deal or an M&A mandate.

**Koppenhöfer:** Assets can relate to technology platforms, product know-how, manufacturing know-how and IP. Products always need to be protected with IP; as far as technology platforms are concerned, know-how can already represent a considerable value. We do what can be called pre-due diligence, which is assessing a company from the perspective of a potential buyer and determining a price range. And then we look at the market and identify potential buyers, not just in Germany, but worldwide.

Do you also reject projects?

**Koppenhöfer:** Yes, of course we do.

**Ungermann:** There are companies that are not ready to do what they are seeking to do. In such cases, a mandate would fail. We advise such customers to wait, tell them that their plans do not appear opportune. We set great store by giving companies a realistic assessment of their projects and plans. This is not always easy, especially when we are dealing with biotechs or investors who have very unrealistic expectations or ideas that are out of sync with the market. You can always dream, but if you are looking for an investor who is willing to spend money on you, you can be sure that the investor will not beat about the bush or shy away from asking specific questions prior to any transaction.

**What are consulting companies like yours paid for the job they do? Are your fees based on a daily rate or do they depend on the total value of the deal like in investment banking, for example?**

**Koppenhöfer:** This is an important question, especially as you have already asked whether we also reject projects. We start our work with an analysis phase during which we charge a daily rate to cover expenses. A project-related team of two to four people analyses the company and presents an initial assessment, which is hugely valuable. If the company then commissions us for the entire transaction process, we will charge a daily rate plus an additional performance fee that is based on the transaction value achieved.

**Ungermann:** We also assist companies that are interested in relocating or selling their products abroad. Contract models that maximise the value of existing assets play a major role here. There is a big difference between the USA and Europe. It seems to be easier to obtain marketing authorisation for medical devices in Europe than in the USA. This is why many American medical technology companies like to place their products on the European market first. We also accompany European pharmaceutical and biotech SMEs that wish to do business in America and emerging countries, notably in Latin America. We can also support companies that wish to tap the Japanese market. We work with a Japanese partner that has in-depth knowledge of the domestic market.

How about the medtech sector? Is it a similar market scenario for biotech and medical technology companies?

**Ungermann:** Germany is very strong in the medical technology sector. I usually classify this sector into three areas, based on the level of control that is required to assure safety and effectiveness:

examples of class I devices include sterile disposables like examination gloves, cups, etc.; examples of class II devices include implants, computer tomographs, surgery computers and similar items; examples of class III devices include devices/products that are applied to patients, and absorbed, for example. Class III medicinal products require pre-market notification, i.e. to undergo comprehensive clinical testing to ensure the device's safety and effectiveness, just like drugs. A well-known example is hyaluronic acid, a compound that improves joint health, amongst other things. Tissue engineering products also fall under class III products, as do drug delivery systems.

Class III products are very interesting for LSCN because we have comprehensive experience in the development of pharma and biotech products. We put this experience to good use on behalf of our medtech clients. There is a trend towards stricter regulations that are similar to those that apply to pharmaceutical products. The development time becomes longer and companies need to invest more. In line with pharmaceutical and biotech companies, I believe that medtech companies will in the future also work with biotech companies to share the costs and risks.

## **And what do you think will happen in the field of industrial biotechnology?**

**Koppenhöfer:** I have gained a great deal of experience through a Stuttgart-based company that offers the in silico optimisation of strains for fermentation processes. It was interesting to find out who was actually interested in optimising production strains for this particular purpose. And it was frightening to see how difficult the chemical industry, which has a very strong profile in Germany, found it to adopt external innovative approaches.

My experience in this field goes back to the decade between 2000 and 2010. Some biotechs have since developed very well and have an excellent financial basis. BRAIN is one such company. However, I am not aware of any exit in the German industrial biotechnology sector; I do not know of any company or technology platform that has been sold to another company in Europe or America. But I do believe that the time has long been ripe to sell a product to BASF, Henkel or an American company, DuPont, for example. But all these companies are rather conservative. I believe in the future of industrial biotechnology. But we have to open up markets and provide funding if we want to facilitate the development of the sector. I am not aware of any M&A activities in the industrial biotechnology sector.

LSCN Ltd. is a leading consulting firm providing corporate development services and interim management solutions in the life sciences.

LSCN comprises 17 partners and companies in six countries. LSCN's interdisciplinary team of experts offers strategic advice and operational assistance for established companies, start-ups and investors in the pharma, biotech and medtech sectors. The firm's major focus is corporate development: strategy and implementation – science to business. In addition, LSCN has specialists in pricing & reimbursement, regulatory affairs, market research, valuation, legal affairs, and communication and recruiting.

LSCN clients benefit from the comprehensive management and industry experience of the LSCN partners and their participation in international, subject-specific networks of decision-makers, opinion leaders and investors.

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