Partnering with Larger Companies

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BioPharm Services

- BioManufacturing Consulting
  - Simulation and Cost Modeling
  - Knowledge Management
  - Manufacturing Strategy
- Business Development/Program Management
  - Market Research
  - Partnering
    - Manufacturing Contracts
    - M&A
    - Technology Licensing
    - Government Grants
- Offices in US and UK
Agenda

• Why work with larger partners?
• Finding the partner/forging the relationship
• Types of relationships – which one is right for you?
• The working relationship – how to make it work and common pitfalls
• Three case studies

Focus will be on biomanufacturing companies/technologies, but lessons apply across applications/industries

More Than One Path

Based on experience
• Three case studies
• Differences from company to company, space to space, and technology to technology

There is no right answer. This is like raising children, it all depends.
Why Work Together?

• Funding has dried-up
  • Private/VC funding for early stage companies is virtually non-existent
  • Government investment and stimulus often requires partnering
  • Larger companies have both funds and capacity, but often lack pipelines
• Unfortunately, larger companies are currently looking for bargains

Why Work Together? (cont.)

Small Companies bring:
  • Knowledge of technology
  • Speed in development and decision making
  • Innovative environment

Large Companies bring:
  • Resources
  • Knowledge of the marketplace
  • Mass production expertise
  • Regulatory expertise

Innovation → Development → Commercialization

80/20 rule
Trade-offs for a Small Company

- **Advantages**
  - Resources
  - Credibility
  - Discipline
  - Mitigates risk

- **Challenges**
  - Sharing value (often most of the value)
  - Slower pace*
  - Loss of control

How do you capture the advantages while minimizing the down-side?

Finding/Engaging the Large Partner

Selling technology/companies/partnerships is like selling magic beans.
Who is Buying?

What companies will be most interested and why?
- Timing can be everything

Who within the company is making the decision?
- Buying Technology is generally a high-level decision with many people weighing in – everyone must be on board – get them vested
- Need a very high-level champion
- PEOPLE MAKE DECISIONS

More than one buyer?
- How important is exclusivity?
  - Market dynamics
  - Stage of technology
  - Willingness to pay
- During negotiations, always have BATNAs
  - Balance disclosure against competition - standstills

What Do the Buyers Care About?

Mitigating their risk
- What could happen wrong if they buy the technology?
- What could happen wrong if they do not buy?
- Less concerned about overpaying than failure

Their Future
- Will this program be a part of their personal future?
- How will this technology affect their legacy?
- How will the deal affect their
  - Promotions?
  - Bonuses?

The impact on the individuals is as (or more) important as the impact on the company.
Credibility is Critical

Can you deliver on the promise?

Build Credibility Through:
• Relationships
• Data and Publication
• University and Government (double edge)
• Large Partners
• Large Investors
• Products on the Market

Structure the deal to mitigate risk -

It is often worth giving up value to get Credibility!

Sell the Vision

• Don’t be afraid to ask for fair value
  • Run the numbers, figure out what it could be worth
  • Ask for a large percentage of the value (remember that you have done all of the work when the risk was high)
  • Lead them to the worst case if they do not buy
• Get them vested in the process
  • Up-fronts
  • Stand-stills
• Listen closely to what they tell you and be flexible
• Be ready to walk away (for now at least)

They may need you more than you need them.
Alliance Structure

Finding the structure that works for both companies

Types of Alliances

• Acquisition
• Joint venture
• License
  • (exclusive, co., and non)
• Co-development agreement
  • (w/ or w/out license)
• “Teammates” on government projects

The structure that works best will depend largely on the state of the project.
Types of Alliances

• Acquisition
  • Potential big value up-front
  • Mitigates Small Company risk
  • Loss of control
  • Cultural fit
  • Potentially loses the Small Co. advantages

• Joint venture
  • Difficult to make work
  • Better for Large Companies with similar clout
  • Focussed on the “end game”

Types of Alliances

• License (co-development)
  • Benefits from Large and Small Company advantages if structured/managed well
  • Allows for the sharing of risk/value
  • Requires IP and opens opportunities for disagreement on ownership
  • Introduces management challenges

• “Teammates” on government projects
  • High dependence on who is the Prime
  • Alignment of goals around a single customer
  • Good environment for collaboration
The Working Relationship
(and case studies)

- Set Clear Goals with Benefits for Both Parties
  - Structure tasks to play to strengths
- Identify High Level Champions/Decision Makers
  - Have the authority (budgets) to make decisions
  - Vested in the success of the program
  - Meet regularly
The Working Relationship (cont.)

• Identify/empower Project Managers
  • Focused on the program
  • Incentivized to succeed
  • Empowered to manage their company’s people/resources
• Engage both companies in all tasks
• Communicate
  • Regular meetings
  • Team-building opportunities

Case I

• License, co-dev., JV
  • Large Co. funds dev. (cost basis)
• Work Plan
  • Small Company performs development
  • Hand-off to Large Company at Pilot Mfg.
• Organization
  • Very high-level oversight (at first)
  • No clear Program Managers
• Communication limited to reporting
Case I – Results

Initial Program Faltered
• Program slightly behind schedule and over budget
• Large Co. pushed down management
• Large Co. mid-management wanted control earlier (NIHS)
• Disagreement on goals (strategic and tactical)
• Significant billing disputes

Resolution
• Contract Dispute
• Development Race
• Ultimate buy-out by Large Co.

Was this a good relationship for the Small Company?
• Lots of pain and sleepless nights
• Provided credibility
• Provided an ultimate deal
• Value was lower than it might have been

Case II

• License, co-dev.
  • Companies co-dev. w/leadership shift at Pilot
  • “Fixed” funding based on clear milestones and goals
  • Costs reimbursed with pre-approval
• Work Plan
  • R&D at Small Co. with constant oversight
  • Market research and analytics at Large Co.
  • Hand-off to large company after Pilot Mfg.
• Organization
  • Top-level leadership with monthly involvement
  • Strong Program Managers
• Regularly Scheduled and Informal Communication
Case II – Results

Program proceeding well
- Program behind schedule and over budget
- Goals have shifted (with agreement of parties)
- Large Co. has approved/funded over-runs
- New developments at Small Co. have added significant value
- Large Co. is considering broader license
- Both parties would call this program a banner success

Case III

- Government program (Small, Small, Small, Med., Large)
  - Med. is Prime
  - Small is “Program Manager”
- Work Plan
  - R&D project with crystal clear goals
  - Companies contribute to virtually all tasks
- Organization
  - High-level oversight (weekly)
  - Technical and Program leads
  - Sub-teams based on sub-tasks
- Regularly Scheduled and Informal Communication – Happens at all levels
Case III

Program proceeding well
• Meeting Goals
• Forged a tight relationship
  • Not without challenges
  • Benefits outside project
• Building radically new technology
  • Benefit to the government
  • Benefit to the companies
• All parties would call the program a success

Conclusions

• Working with large companies can be extremely valuable to smaller companies
  • Credibility/Resources/Discipline
• The relationships can be painful
  • Control/Risk/Speed
• With proper management, the pain can be mitigated and the value enhanced
  • Set Clear Goals with Benefits for Both Parties
  • Identify High-Level Champions/Decision Makers
  • Identify/empower Project Managers
  • Engage both companies in all tasks
  • Communicate