

Observations on Private Biotechnology Acquisitions

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A private company needs to develop its credibility by demonstrating value to potential acquirers – i.e., by developing a highly desirable line of products. Above all, it needs to stay focused on the requirements of potential acquirers by knowing the bioscience landscape.

Strategic rationale - Creation of a reliable source of new products to ensure future growth of the company.

Pipeline Acquisition - The decline of known drug candidates, biotech's ability to efficiently ferret out candidates and a buyer's delay until they know they have winners has driven up the cost. Note the emergence of some eye-popping mid-stage deals (e.g., Pfizer's acquisition of Esperion).

Complementary Platform - When they have a productive marketing and sales platform but not a productive research platform – they need to acquire this capability (e.g., MGI Pharma's acquisition of Zycos).

As a Financial Vehicle - Mergers with companies whose lead products have failed may be ideal for companies when they have large amounts of cash and can provide the shell company with value for shareholders and potential in the new company (e.g., Dredeon's acquisition of Corvas).

THE BUYER

Consolidation - When they have cash available, a company wants to leverage their process with as many similar target products (e.g., Medicis' acquisition of Inamed) or purchase a competitor (e.g., Cephalon's acquisition of CIMA).

Strategic rationale - Since the company is private and has no/little liquidity or market-based price. The investors are usually seeking an exit strategy at an attractive valuation. The choices of acquisition can be more attractive than IPO.

THE SELLER

Taking the company public - Market acceptance is low for IPOs, with the exception of very late stage products (best if product is already on the market). Cost of the process is a strong consideration since

there are regulatory compliance and investor relations costs (as high as 15-30% of IPO gross proceeds). Most important is the additional distraction and demand placed on management. There are also the inevitable pressures to maintain share price rather than focus on long-term growth goals.

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