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Business Development in Biotech - a competitive advantage?

Many biotech companies start as an idea for an idea: a business possibility for some scientific idea, often in embryonic stage. Their survival as companies and growth relies on the quality of the science but to a great extent on the team: the inventiveness of the scientists and other founding members, who, in order to transform the ideas into products, need access to money – often a lot of money, when it comes to the development of products for human health. Out there, there are extraordinary ideas, protected by good patents, fantastic projects to develop those ideas, and excellent CEOs, who know well the finance world, the industry and the investors, and can bring into the company the cash that will feed the advancement of the ideas. While these tasks are being performed, who is creating the relationships with partners or customers that will potentially help develop the company, or have complementary technologies or skills, or complementary IP to that of the company, who is keeping an eye on the world “out-there” to understand early enough what will be the next hot themes or to find out if a large pharmaceutical company is about to start looking for just the type of product your small company got on offer, with a bit more of development work? Well, everybody in management is doing it, but these functions are not being done full time, or in an integrated manner, because finding someone who knows how to do them well is expensive and companies in early stages have to watch every cent they spend. So, either there is already a person performing these tasks in the company, or they are not being performed to their best. Are these tasks sufficiently important that they bring the company a competitive advantage? I.e., is the cost of hiring a Business Developer justified by the value that the function brings to the company?

In this short paper, we will look at what is the job of a Business Developer in a biotech company: what are they doing, who does it, what can actually be achieved. Using a case study of a successful biotech company, the above questions will be explored.

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Alnylam is a company engaged in the development of therapies based on RNA interference (RNAi). On its website, Alnylam posts that it has 12 programs in development, one of which is in clinical trials phase 1 and two more that are scheduled to enter the clinical this year. Alnylam has no products on the market and its revenue comes from its licensing agreements and from its research collaborations. It is clear that this latter activity, typically a Business Development activity, has an important role to play in the company's strategy.



Market Cap:	571.33M
Enterprise Value (11-Mar-07):	360.00M
Profit Margin (ttm):	-128.51%
Operating Margin (ttm):	-146.68%
Revenue (ttm):	26.93M
9 months to Sep 2006 – from licensing: 1.4 mill; overall 19.9 mill. (to Sep 2005, respectively, 0.4 and 4.2)	

Sources – Yahoo finance and Alnylam SEC filings.

In the 4 years of its existence, Alnylam published over 20 licensing and research collaboration deals. Strategic deal-making has allowed Alnylam to progress from a biotech exploring another “crazy new idea”, to a successful stock-quoted company, the leader in one of the most exciting and promising areas of development of new molecules, holding patents that control the whole area. One of the first strategic actions from Alnylam was to take control of the patent situation in its area of specialization - the merger with research-based company Ribopharma in Germany in July 2003, one year after Alnylam's A&B financing rounds. Investors put in an extra 24.6 million US dollars into the company on this occasion. At this stage, Alnylam hired a VP Business Development.

In the 3 years that followed the hiring of a VP Business Development, Alnylam put in place a licensing program and published over 15 major alliances, licensing and collaboration deals, while consolidating its IP portfolio. Through these actions, Alnylam became the reference company for all siRNA programs, while the licensing program kept everybody else working and the door open to collaborations. Licenses were given for research purposes (Sigma, MWG, Quiagen, Dharmacon, IDT, Invitrogen, for example) or for therapeutic development on specific targets (Genecare, Nastech, Calando) and collaborations agreements on specific therapeutic areas were executed, a couple of them of strategic importance, such as the Merck & Co collaboration from 2003, amended and extended in 2006, and the Novartis collaboration in 2005. These deals contributed \$58.9 mil in equity (which corresponds to 19.9% of the company's value) plus US\$10 million in upfront in 2005.

It would be unreasonable to argue that the deals were operated solely by the Business Development team - the whole company team was necessary for the success. But Alnylam is a good example of how value can be brought to a company through a well-thought Business Development strategy implemented through good Business Development licensing and collaboration deals.

The answer to the question leading to the Case Study above “Is hiring a Business Developer a good investment?” seems to be, as illustrated, a resounding “Yes, of course!”: Business Development contributes to company value in a way that goes well beyond straight revenue from sales - it is therefore important to implement the Business Development function early in the life of a company, to realize the potential of its IP and collaboration scope.

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When to start Business Development?

To do good Business Development you need someone with experience doing a complex Job, to hire such a person you need to pay him well, but you need to hire such a person because...you need money.

Very early-stage companies are not the typical Business Developer ground. Early deals or early programs are most likely negotiated between the founding team (often scientists and entrepreneurs) and the investors. Typically, companies will start looking for a Business Developer once they have made proof of concept for their technology, have secured their IP position and have raised the funds to ensure continuation of the business.

The right moment to hire your Business Developer is also a question of momentum and "mode": as a start-up, the energy and drive that are needed to move forward a company in its early stages, is perhaps not compatible with the planning and distance required to see the company in the wider picture of its competitors and potential clients, and it is difficult to transition from the opportunistic deal-making mode, to defining and operating a strategy of development. So perhaps the birds' eye, long term view typical of Business Development is more often associated with a second stage in the growth of the company, after perhaps a couple of financing rounds and a certain solidity as to the science. Is this the best model for a biotech? Sometime there doesn't seem to be much choice left to the young companies, but for those that selected to think about Business Development early enough, the bet seems to have paid.

Who are the business developers?

The fundamental issue with Business Development is that it requires the input of a cross-section of specializations. Strong strategy skills are needed, but in implementing the strategy, negotiation and the ability to build long-term relationships are the most relevant. Attorneys are often found in charge of licensing (which is one of the main activities of the Business Development), because the material translation of a Business Development deal is a legal contract. But Biotech deals have strong technological components, and finding licensing opportunities and exploiting them requires a deeper technological knowledge than in other industries (say the recording industry, for example). This is not to say that an attorney with licensing experience can't best perform the Business Development activity in certain types of structures. Companies such as Collectis (France) have created huge value off licensing its technology with an attorney as VP Business Development (about 40 licensing deals over 6 years). In their great majority, the job descriptions for business development positions require a double track education: a science degree and a management education, often to MBA level.

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If we go by the description of the people sought in adverts for Business Development positions, one could be tempted to wonder at any such people ever being found, such is the panoply of experience and qualities that these candidates should demonstrate! Here are some of the requests frequently found in adverts for Business Development mid-managerial positions:

- Deliver on revenue targets.
- Drive additional revenue opportunities from within existing company relationships whilst ensuring customer extracts maximum value from current interactions.
- Rapidly develop an in-depth understanding of company's products and services.
- Identify new sales opportunities, negotiate contractual terms and close deals.
- Develop opportunities by understanding client's requirements, presenting and structuring a business and scientific framework to meet customer needs.
- Build and maintain strong customer relationships, identifying current and future needs and aligning with the capabilities and strategy of the business.
- Identify opportunities for additional value generation through collaborations or M&A.
- Support the management team in business planning and strategic direction.
- Form a strong working relationship with the scientific and operational teams.
- Identify new products and service offerings and communicate these effectively to the Product Development Manager.
- Liaise with Marketing to identify opportunities to raise the company's profile with pharmaceutical and biotechnology companies within country or continent.
- Implement tactical marketing activities (literature, PR, exhibitions etc).

A long list of requirements, but why, someone may be tempted to say, giving it a new name, if after all Business Development is just a fancier name for Sales?!...Well, not quite.

A good sales person pays attention to his customers and should contribute to the continuous improvement of the company's products and image, but a Business Developer has a relevant role in the definition of the company's strategy, that a sales person rarely has. It is within the remit of the Business Development to spot new potentially interesting technologies or products that can be combined with the company's, new collaborations that create synergies, i.e., that bring more than the sum of the two partners and propel the company onto higher circles; that finds outsourcing strategies that go beyond the subcontracting mode. Business Development should function like the antenna of a company, "feeling" the world out there and transmitting its impressions to the "central processing area", combining the new information with existing internal one in order to gain new information that allows the company to position itself more competitively. This is also one of its most creative functions, and these are not the functions of a salesperson.

In the list of requirements (and the above is NOT a compilation: all of these requirements come from one advert for one Business Developer) it is clear how multi-dimensional the position is, with interactions that focus on internal and external environments: internal interactions, with Management (and often the VP or Director of Business Development is part of the Executive Management team) are important, but also those with Research, Product Development and Marketing. From its frequent exchanges with potential partners the Business Developer can feed information about product improvement or new products at very early stages to Research or Product Development. Moreover, Business Development deals are more akin to projects than to straight transactions: indeed, clear, concrete milestones and deliverables are defined, in order to draft the contracts, but at the basis of a Business Development deal is the notion on continuity in the interaction,

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indeed a development project for the parties involved, which should bring more to the company than the money consideration agreed.

The activities linked to the external partners are, thus akin to sales and/or marketing activities, but they are modulated by this projection mode into the strategic future of the company that should envelop the Business Development function, and this is less usual in a Sales or Marketing position. We can then say that the requirements for the job include a rather significant articulation of know-how and experience.

How easy it is to find a good business developer? Anecdotic evidence from Recruiters indicates that smaller companies may be hard put to find the right person for the job: experienced business developers tend to prefer jobs where they see potential for big deals. For medium-sized companies, the potential for developing the business may indeed be bigger and attract more experienced professionals. The Biotech industry has now a few decades of existence and it is one of the industries where progress is largely achieved through multiple deals, so there are very experienced professionals in the industry, as deal complexity and originality in finding ways of building value for both partners can demonstrate.

The model Business Developer

As a professional in Business Development, I have found that the best deals, i.e., deals that bring the most value out of a technology in terms of progress in addressing a medical need, and the most value to the companies involved are with:

- clearly defined milestones,
- compensations that take into account the risk and investment of each party,
- a long-term view,
- flexibility to allow adapting to changing environmental conditions.

The complexity of the deals make it that it is often a team and not an individual involved, but it is important that the Business Developer pilots the team and is the point person for the negotiations. A typical sign of a deal that is going bad is the multiplication of one-to-one dialogues between different people in each team. The Business Developers need to command the respect and be recognized by both teams as the people in charge of the negotiations. This does not mean they are the people taking the decisions: the CEO or the Executive Team may be the ones taking the decisions, but the Business Developers (or the person taking indeed the role, even if they have a different name) need to be the people in charge of the negotiation. So, one important trait in successful Business Developers is their ability to lead in an inclusive manner.

The understanding of the potential of the product or the technology is another point I find important, both its potential for the party that owns it, but also for the other party. Here is a great difference from a "typical" sale: in fact, a Business Development deal, or a licensing deal, is often the beginning of a long relationship, and an opportunity for the parties involved to make more of the item under discussion. The intellectual property aspects are, as we know, hugely important, but conferring a market value to these assets is, as we all know extremely difficult. The creativity of the negotiating team, their ability to recognize the true value for each party of the deal in discussion, is, in my opinion, another important aspect.

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In summary: what skills? I have mentioned leadership and negotiation qualities, but equally important are: creativity, ability to be respected across specialties (science, law, IP, etc.), excellent knowledge of the market and ability to translate intangible value into tangible, negotiable items, focus but also the ability to see the great picture, which translates also in the ability to think long-term. Many of these skills are acquired by experience only, but much can be learned as well.

The Biotech Industry, with its strong cross-discipline and technological component, and much of its value made from its intellectual capital, is ground for a large number of collaborations and deals that require a type of skills different from typical Marketing or Licensing functions. Business Development has a significant role in implementing Biotech companies' strategies for growth, and it is best adapted to the very changeable environment in which these companies evolve. Business Developers have different backgrounds (law, IP, science) but all have a very clear sense of the business and an ability to talk across specialties and to transform complex projects into executable deals that translate in increased value for the parties and the stakeholders.

Note from the author:

All facts and figures presented in this article are public knowledge and have been taken from press, company press releases or from published Annual Reviews.



***About the Author:** Mrs. Salgueiro is a senior business development executive with international experience. Her particular knowledge of the biotechnology sector and her proven leadership and negotiating skills enabled her to become one of the most successful deal makers in the business.*

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