

MOFO BIOMETER™

A deal report covering the biotechnology industry



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2015 BIOMETER SHOWS TALE OF TWO MARKETS

By [Stephen B. Thau](#), [Aaron J. Schohn](#), and [Allison Lauterbach Dale](#)

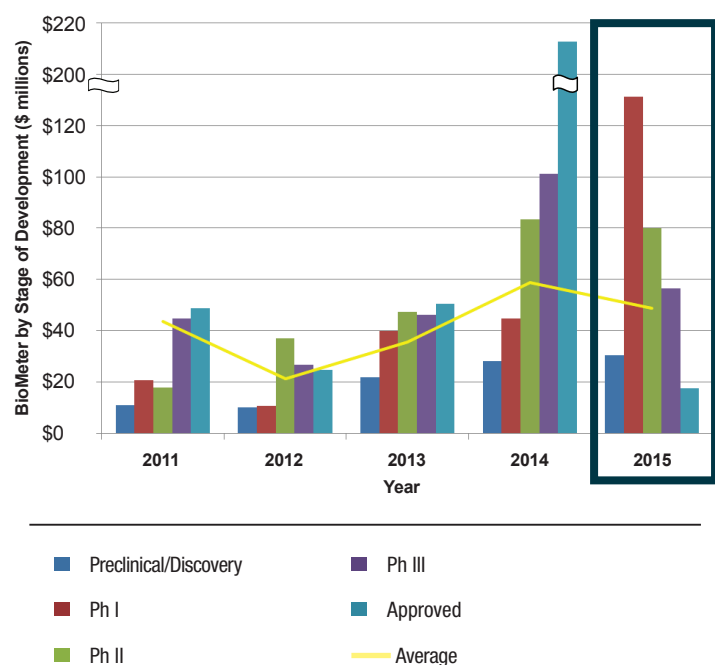
The full-year 2015 BioMeter paints the picture of a strong year for biotechnology, but deeper analysis shows a cautionary trend. The average BioMeter value for the entire year across all transactions reporting up-front payments and stage of development was \$48.8 million, down from \$58.7 million in 2014, but still relatively strong. There were also 127 transactions in 2015 reporting up-front payments and stage of development, up dramatically from 79 transactions in 2014. We had noted that the robust IPO market for biotechnology companies was coinciding with a decline in the number of licensing transactions, but 2015 reversed that trend, bringing the number of transaction back up to levels last seen in 2011. The slow-down in IPOs towards the end did not impact the rate of transactions, which was steady throughout the year.

Rather, 2015 was a tale of two markets. Of the 127 reported transactions disclosing stage of development and up-front payment, 17 were “mega-transactions” with up-front payments of \$100 million or more. The BioMeter for these mega-transactions was a whopping \$250.7 million. The BioMeter for the remaining 110 transactions, still far more than were reported in 2014, was only \$16.7 million.

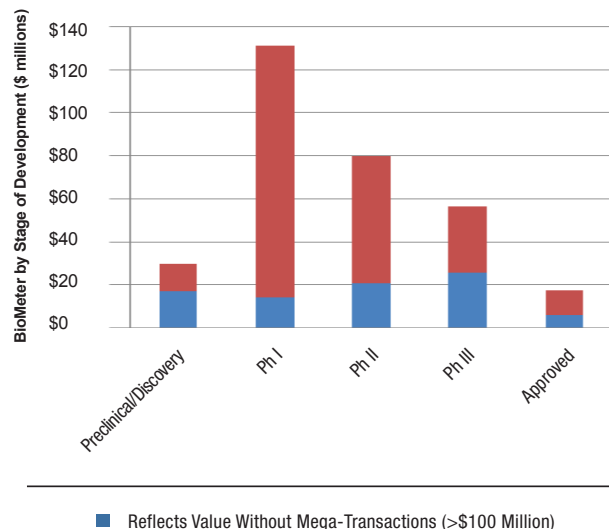
The bifurcated market existed at all stages of development and reflected the distribution of transactions present in our previous BioMeter analysis, with the greatest number of mega-transactions for preclinical/discovery assets and for Phase 2 assets (5 in each). Overall, preclinical and discovery transactions showed a BioMeter value of \$30.5 million, compared to \$28.1 million in 2014; excluding mega-transactions brings the 2015 value down to \$16.9 million. The effect for Phase 1 transactions is even more dramatic: overall the BioMeter for Phase 1 products was \$131.5 million, compared to \$44.8 million in 2014; however, excluding three mega-transactions,

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TABLE 1: BIOMETER VALUES BY STAGE OF DEVELOPMENT AND AVERAGE FOR 2011 THROUGH 2015



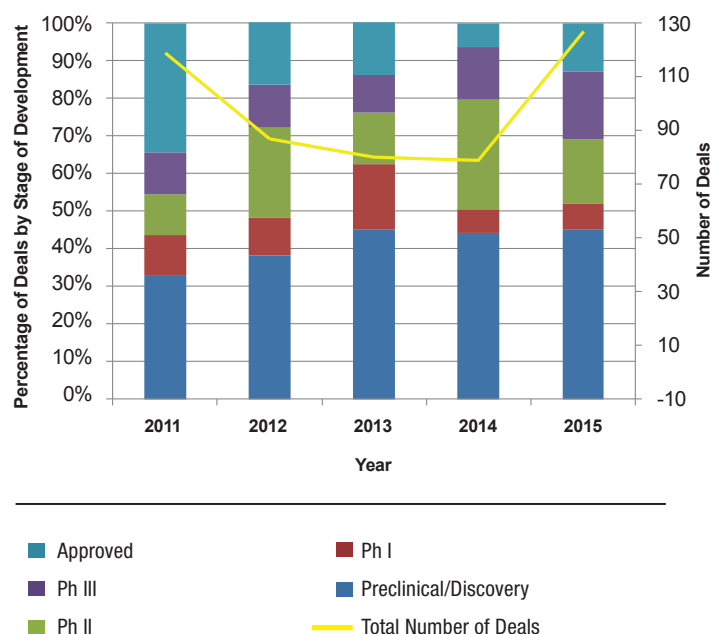
2015 BIOMETER BY STAGE WITH AND WITHOUT MEGA-TRANSACTIONS



the number drops to \$14.4 million. Similarly, for Phase 2 products, the overall BioMeter was a healthy \$79.9 million, compared to \$83.5 million in 2014, but excluding mega-transactions the value was only \$20.8 million. For Phase 3 products, the overall BioMeter was \$56.5, down from \$101.1 million in 2014, but without mega-transactions was only \$25.8 million. Approved products had a relatively weak 2015, with an overall BioMeter of only \$17.5 million; excluding the lone mega-transaction for an approved product (the AstraZeneca/Daiichi transaction for Movantix with an up-front payment of \$200 million), the BioMeter for approved products was only \$6.1 million.

So what's going on? On the positive side, demand for licensing transactions was higher in 2015 than in the past several years, as evidenced by the higher number of transactions. This occurred at all stages of development, with the mix of transactions by stage of development consistent with prior years. As in every year we've looked at, preclinical/discovery transactions dominated, at approximately 45% of the total. This is

TABLE 2: NUMBER AND PERCENTAGE OF COLLABORATION AGREEMENTS BY STAGE OF DEVELOPMENT FOR 2011 THROUGH 2015



good news for companies that are developing new products and technologies. The forces that are creating demand—unmet medical needs, patent cliffs for existing products, and the ability to receive high margins from novel products—have not disappeared.

At the same time, except in the areas of mega-transactions, buyers are being cautious about how much they will put on the table for up-front payments. (We're sure that buyers are being cautious in mega-transactions too, but other forces appear to be at play—more on that below.) Whether this reflects a reduction in overall deal value, or a shift in value away from up-front payments and towards back-end milestone payments and royalties, is hard to tell from the available data, but it is clear that licensors will need to have appropriate expectations for the size of up-front payments as they enter into negotiations.

What makes a mega-transaction? Not surprisingly, being in a large market helps. Putting aside the one mega-transaction for an approved product (Movantix for opioid induced constipation), 43.8% of the mega-transactions (7 out of 16) were in immuno-oncology, and the rest were in other very large chronic disease markets: Alzheimer's, diabetes, rheumatoid arthritis, psoriasis, allergy. Notably absent from the mega-transaction club were any rare disease therapies, which have seen a favorable reception in the

capital markets. Most of the mega-transactions also involved platform technologies and the possibilities of multiple products, which can help justify a more sizeable up-front payment. Finally, biologics are in vogue in this group, representing 68.8% (11 out of 16). Where buyers see a potential game-shifting technology in a very large market, they're willing to pay for it, especially if it's a market where other buyers are displaying similar behavior.

Everyone else is not completely left out in the cold. The continued strong BioMeter values for preclinical/discovery transactions and the increasing number of transactions are signs that investment in novel technologies and therapies can continue to bear fruit. Approved products continue to be a weak spot, as they were in 2014, suggesting that companies should either partner early, or plan to go it alone.

Editorial note: when we began publishing the BioMeter, we envisioned a quarterly report. After two years of quarterly reporting on relatively small data sets, and given the typical gestational time of a transaction that makes it into the BioMeter report, we concluded that less frequent publication would lead to more meaningful analysis. We hope you agree. As always, feedback is welcome at jdubman@mofo.com.

About MoFo BioMeter

The MoFo BioMeter is an index that measures the health of the biotechnology industry. The BioMeter averages up-front payments in licensing, collaboration, and development agreements between biotechnology companies (broadly defined) and companies that pay for commercialization rights. We focus on up-front payments because they are the most concrete representation of the value of a development-stage asset, and also because in an era of constricted venture funding for unapproved therapeutics, up-front payments from collaboration agreements have become an increasingly necessary source of capital for companies to sustain their development efforts. The BioMeter also allows us to measure changes in the industry, or by sector, over time.

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