

PARTNERING: SELECTION AND MANAGEMENT

**LES Add-On Seminar
2004 Annual Meeting**

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BTG International Inc.**



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What is a Partnership?

- Committed relationship (usually long term) between 2 or more organizations
- Purpose is to achieve specific business objectives by maximizing the effectiveness of each partner's resources
- Relationship based on
 - Understanding other partner's values and expectations
 - Trust
 - Commitment to common goal



What Do You Want to Achieve by Partnering?

It depends in part on your company's position

- Stage of growth
- Sector
- Company strategy
- Underlying assets
- Gaps between position and goal



What Value Proposition does Your Partner Need to Bring to the Table?

- Needed capital, plus more
- Experience in R&D
- Expertise in development
- Complementary IP
- Customers / Marketing / Distribution networks



Focus on Three Types of Partnering:

- Active equity partnering
- Contract development partnering
- Strategic alliances / collaboration partnering



Why Partner?

Why Not Partner?



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Pros of Partnering:

- Acquiring financing and mentoring
- Faster growth
- Ability to bridge gaps
- Lower costs for development and operations
- Access to other / bigger markets
- Access to new technologies
- Entrepreneurial management for early-stage growth
- Professional management for later stage growth
- Increased value for company
- Competitive advantages



Cons of Partnering:

- Loss of direct control & flexibility
- More external scrutiny
- Challenges in future financing rounds
- Organization disruptions
- Partner unreliability
- Prioritization issues
- Additional costs associated with partnering
- Loss of proprietary knowledge and confidentiality issues
- Possible co-dependency
- Damage to reputation

Few companies can go it alone . . . Partnering must be contemplated at some point



Active Equity Partnering

- Financing and mentoring
- Do as much due diligence on the investor(s) as they do on you
 - Deep pockets
 - Stage of fund (beginning or at end?)
 - Reputation
 - Experience
 - Knowledge of industry sector
 - Location
- Valuation
- Dilution is not a bad thing: Better to have $\frac{1}{4}$ of a \$10MM apple than $\frac{3}{4}$ of a \$2 MM apple



Financing Strategy

- Raise enough money to get to a significant & measurable milestone, plus more
 - Achieving milestone means increased valuation
 - Achieving milestones will attract other partners
- Look for “smart” money – investors that bring added value
- Keep investor group as small as possible with one lead investor



Investors' Board Representatives

- People with transferable experience about how to grow companies
- Value add
- Knowledge about your sector
- Complement management team
- Strategic, not operational
- Supportive, participatory and challenging



Under-Recognized Importance of the Independent Director

- Corporate governance issues
- Checks and balances
- Objectivity
- Experience
- Added credibility
- Relationships and contacts
- Bring value that company could not otherwise afford



Working With Your Investor Partners

- Keep them informed on monthly basis
- Establish rapport with at least one to use as sounding board on tough issues
- Let them mentor you - seek and heed advice
- No surprises!!



Contract Development Partnering – Outsourcing

- Partner to Bridge a Gap
- Not enough people
- Infrastructure lacks capability (e.g. manufacturing)
- Backlog of projects
- Lack of expertise needed for particular project
- Accelerated project delivery schedule
- Changing business
- Agility required to keep competitive

Goal: Access their expertise / capabilities for results in defined time period at competitive price



Do Due Diligence on Potential Partner

- Competencies – capabilities / core services
- Reputation / track record
- Financial viability and stability
- Delivery capabilities
 - Experience
 - Specialized skills and strengths
 - Resources
 - Management
- Quality focus
- Other evaluation factors: size, location, culture
- Know some of their competitors



Financing of Contract Development Partnership

- Fixed price
 - Know the basis for the quotation
 - Negotiate pricing terms
 - Is their pricing model competitive?
- Time & Materials
 - Need a \$ cap and a time limit
 - Is their pricing model competitive?
- Alternatives:
 - Profit sharing
 - Equity



Success Factors and Managing the Relationship

- Senior management buy-in
- Assign dedicated project manager
- Clear project scope – with agreed upon objectives
- Detailed requirements: what & when
 - Well defined milestones
 - Well defined deliverables
- Delineated and documented processes
- Effective communication
- Designate contractor's project manager (single point of contact) and the experts



Strategic Alliances / Collaboration Partnering



Strategic Alliances Take Many Forms . . .

- Structure:
 - Licensing
 - Co-development projects
 - Other strategic alliances
 - Joint ventures
- Types:
 - Supply relationships
 - Servicing arrangements
 - Co-Development
 - Co-Marketing
 - OEM Resale
 - Technology licensing / cross-licensing



And Come in Many Flavors

- Partners:
 - Small company / large company
 - Small company / medium sized company
 - Medium company / medium company
 - Large company / large company
- Where on Value chain of Company:
 - Early Stage
 - Mid – Stage
 - Late Stage



Importance of Alliances in Value Chain

- Helps smaller companies grow
- Adds credibility to smaller company
- Gives large company access to hard-to-find capital
- Gives large company access to new markets



Majority of Strategic Alliances Fail to Meet All Expectations

- 52% “failed” – met some expectations or fell below expectations

Source: Dr. Lara Marks, Silico Research survey of partnering capabilities of pharmaceutical companies – December 2003 - February 2004

- Others report much higher “failure” rate
 - 2/3 of alliances failed in past 2 years
 - About 70% of alliances fail to reach stated objectives



Why do Strategic Alliances Fail to Meet Objectives?



Source: Dr. Lara Marks, Silico Research survey of partnering capabilities of pharmaceutical companies – December 2003 February 2004



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How to Avoid the Pitfalls

- Be aware that strategic alliances take time, and are expensive, risky and complex.
- Do due diligence on potential partner
- Top management support
- Aligned objectives – any hidden ones?
- Have three dimensional “FIT” of strategy, operations, chemistry



Designing the Alliance

- Agree on objectives
- “Equal” contributions from both partners
- Define rights and responsibilities
- Address value creation for both sides and risk sharing
- Protect core competencies
- Designate leader(s)
- Create plan with defined milestones
- Dispute resolution process
- Formulate termination plan
- Build trust
- Negotiate a win-win partnership

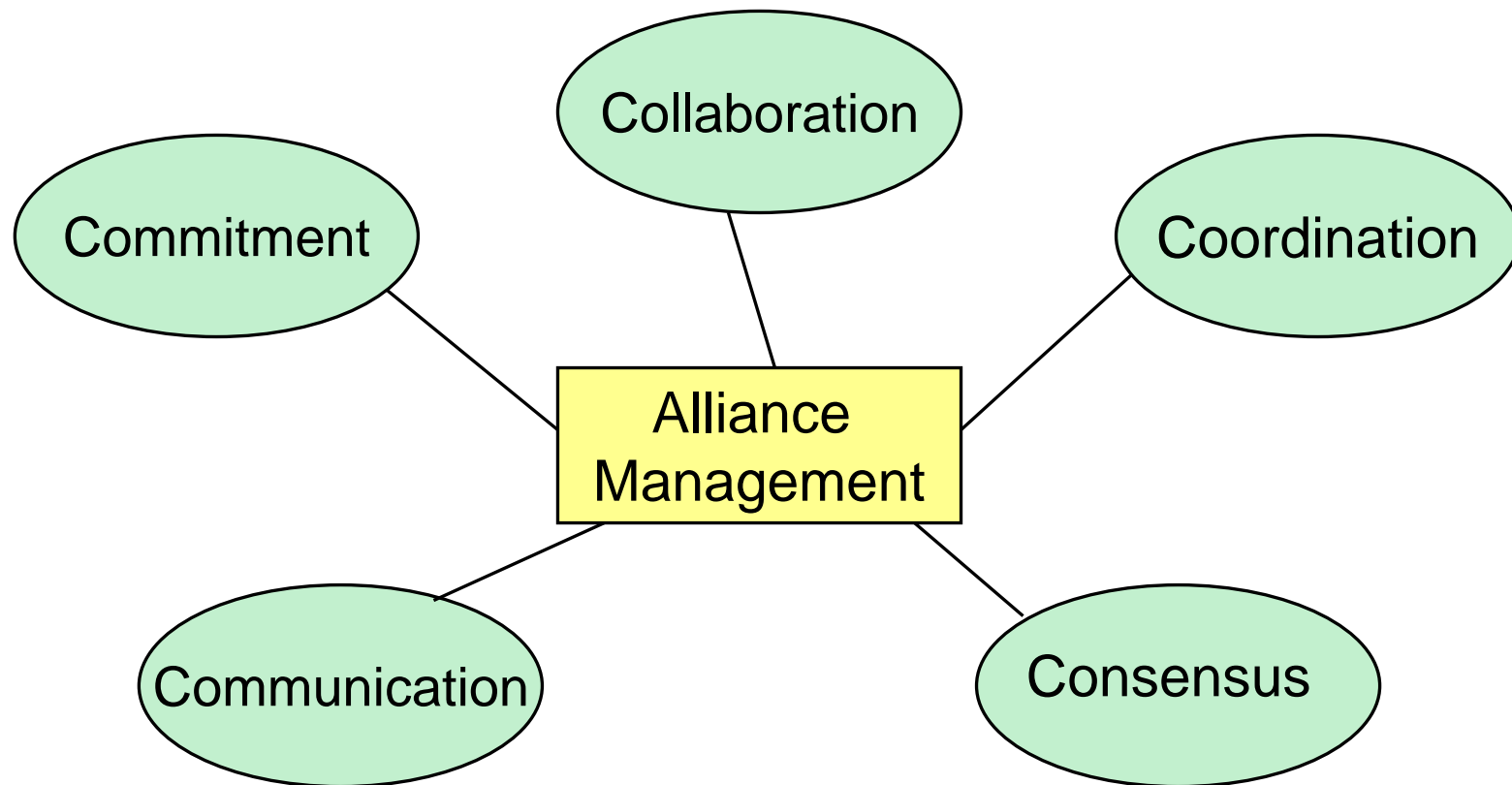
One size doesn't fit all



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Managing Alliances: The Five “C’s”



Source: Dr. Frederick W. Telling, Pfizer Inc. *Overview: Strategic Alliances in Bio-Pharmaceuticals*, 2004.



Choose the “Right” Leader

- Understands technology / IP and business issues
- Well-organized
- Process oriented
- People focused
- Committed
- Available and responsive
- Aware of deal history and agreement terms
- Has authority within governance structure



Success Factors for Successful Strategic Alliance

- Senior management commitment
- Compatible values and goals
- Leadership
- Clear roles and responsibilities
- Thorough strategic planning with measurable progress
- Governance mechanisms
- Communication
- Trust
- Fairness
- Flexibility; synergies to bridge cultural gaps
- Problem resolution process
- Exit criteria and termination rights



Lessons to be learned

- Heed red flags during negotiations
- If partners are not aligned, then alliance will fail
- If it is not structured properly, then alliance will fail
- There will be bumps in the road – expect them
- Don't have unrealistic expectations



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