Ferghana Partners Group is a Life Sciences investment banking house with offices in London and New York.

We specialise in creating and executing effective strategic transactions for pharmaceutical, chemical, diagnostic and biotech companies.

1 + 1 = 3

"ACQUISITIONS AS A CORPORATE DEVELOPMENT TOOL"

PRESENTED BY

William J Kridel Jr

Acquisitions for Growth - 1

1 + 1 = 3

"Good Deals Do Get Done!"

The best and fastest way for an expansion-minded Pharma or Biotech Company to achieve accelerated growth or to fill in gaps in geography, products and technology?

ACQUISITIONS!!!!

Acquisitions for Growth – 2
BASIC PROCESS

1. Identifying Goals of Any External Deal, including Acquisitions
2. Selecting a Suitable Deal Target
3. Getting the Acquisition Accomplished

Definition of an Acquisition

"The purchase of total or partial ownership in another company using cash or securities as currency to pay for the deal."

Definition of a Merger

"A transaction in which two companies completely exchange their shares either in order to create a new joint enterprise or in which one company fully absorbs the other in order to create an enlarged, surviving enterprise. There is a presumption of continuity of the two businesses and their relative equality."

Definition of a "Target"

"A product/technology/company which is the object of interest to a potential Acquiror."

Many Alternatives to Acquisition

- Joint Venture
  - Pooling of various efforts to achieve scale efficiency
  - Potential ownership and accounting issues
- Marketing Agreement
  - Allows great flexibility
  - Low level of control
- Alliance/Corporate Partnering
  - Degree of flexibility and risk management

Comparing Corporate Development Options

	ACQ	JV	Mktg	C/P
Ownership of IP	✓	P	×	P
Ownership of Manufacturing	✓	P	×	×
Control of Operations	✓	P	×	P
Control or Ownership of Sales and Marketing	✓	P	P	×
Consolidation of Financial Results	✓	P	×	P
Control of Research	✓	P	×	P

✓= 100%; P= Partial; ×= Not at all

FERGHANA PARTNERS GROUP

Start with Acquiror Self Assessment

- People and Processes for a Transaction - what is the quality and competencies of the teams(s) and its leader(s)?
- Constituency Attitudes – what support can be expected from decision making stakeholders?
- Operating Factors - due diligence is important, but "correct vision" is even more so.
- Technology/Know-How Position – the NOI Syndrome.
- Corporate Culture – how will it be impacted?
- Public & Market Perception – managing expectations.

Be Clear and Forceful in Setting Goals

- Technology/R&D Capability – fill in gaps
- Manufacturing – capability; capacity; location; compliance
- Financial – access to cash and shareholders; decrease earnings volatility; increase relative earnings; economies of scale; achieve majority ownership; avoid litigation
- Market Position/Structure – compare horizontal deals to vertical deals and diversification

Some Caveats to Doing an Acquisition

- Disruption to ongoing business activities
- Make the Right Strategic Choice: Geographic market dominance vs. product dominance vs. therapeutic category dominance
- Accessing markets and resources by better alternative deal modalities

Select a Suitable Target - 1

- Pick the right sizes of target – turnover & profit; (or burn-rate); employees; market value (or capital invested)
- Pick the appropriate location for the target
- Get the product or technology fit right – complementary or supplementary
- Verify the IP position fully
- Triple Check the Status of Clinical Trials and Regulatory Attitudes

Select a Suitable Target - 2

- Look carefully at key operating factors of target – differences in marketing/distribution channels; state of manufacturing facilities; management experience; products and pipeline; anti-trust issues; culture compatibility
- Weigh up financial and transactional elements – ownership structure; cash or shares; required level of ownership; friendly or hostile; local stock exchange rules; regulatory filings

Create the Transaction Framework

1 + 1 = 3

- Internal Due Diligence and Negotiation teams
- External advisors: lawyers, accountants, consultants and investment bankers
- Timelines and Guidelines

Use Many Sources of Information

- Annual Reports; Filings; Press Releases
- Corporate; Product; Technology Literature
- Industry publications – magazines; journals
- News archives; internet links
- Research reports; interviews with analysts and ex-employees
- Information Memoranda, prepared by Target or by your advisor

Applying Selection Criteria - 1

Produce a *Shortlist* of Targets by:

- Deal Value
- Location of Target
- Product/Technology Fit

Applying Selection Criteria - 2

Initial *Screen-Out* for:

- Operating aspects

  (anti-trust; IP; management; marketing; clinical results)
- Financial and Transactional Elements

  (ownership; control; valuation; deal structure)

Approaching a Target Requires Finesse

1 + 1 = 3

- In Bilateral Transactions, especially if uninvited
  - Use of a respected 3rd party as go-between
  - Clear deal rationale communicated
  - Importance of Sensitivity to Family, Community or Ownership Elements
- In Auction Transactions
  - Speed and decisive action is really crucial

Cross-Cultural Awareness is Needed to Assess and Close a Cross-Border Deal

- Access to information around the world is very different
- The legal systems in Europe, USA/Canada and Japan are also very different
- The contract documents thus will vary widely
- Behaviour of owners and of negotiators will impact the deal

Getting The Deal To Closing:Tricky Things to Watch Out For

- Price demands changing in amount or type of payment…without warning…the BBBIIIGGG Squeeze
- Potential surplus employees and owners
- Issues with target's alliance partners
- Overly finicky lawyers or accountants
- Government intervention
- An "own goal" is to be avoided at all costs in negotiating the deal..be polite and firm and accurate and fast

Acquisitions: Perspectives from a Public Company

1 + 1 = 3

Nature of Currency

Nature of Target

CASH → Public Company / Private Company

OR

STOCK → Public Company / Private Company

Issues Involved in Purchase of Public Company

- **Partial ownership (minority) -** Board position; control; limitations on self-dealing; possibility of later "back-in" or buy-out; were shares acquired in the market or from company or from shareholders?
- **Partial ownership (majority) -** Board positions; level of duty to other shareholders; higher limitations on self-dealing; possibility of later buy-out; were shares acquired in the market or from company or from shareholders?
- **Total Ownership** - cost of deal; retention of key staff (loss of options, salary levels, etc); tender offer regulations; disclosure
- **Anomaly:** the "Reverse into a Shell Company" = quotation on an exchange; presumably has cash but little ongoing operations; shareholders need injection of real business activity to valorize their holdings

Acquisitions: Perspectives from a Private Company

1 + 1 = 3

Nature of Currency	Nature of Target
CASH	Public Company
	Private Company
OR	
STOCK	Public Company
	Private Company

Issues Involved in Purchase of Private Company

1 + 1 = 3

- Partial Ownership (minority or majority)

  - control; integration; funding

- Total Ownership

  - integration; growth; retention of staff

Ferghana Partners Group is a Life Sciences investment banking house with offices in London and New York.

We specialise in creating and executing effective strategic transactions for pharmaceutical, chemical, diagnostic and biotech companies.

1 + 1 = 3

"ACQUISITIONS AS A CORPORATE DEVELOPMENT TOOL"

"Good Deals Do Get Done!!"

PRESENTED BY : WILLIAM J KRIDEL JR
MANAGING DIRECTOR