

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.

“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

1 + 1 = 3

“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

$$1 + 1 = 3$$

“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

1 + 1 = 3

- 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

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

1 + 1 = 3

- **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

1 + 1 = 3

- **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

1 + 1 = 3

- 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

1 + 1 = 3

- 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

1 + 1 = 3

- 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

$$1 + 1 = 3$$

Produce a *Shortlist* of Targets

by:

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

Applying Selection Criteria - 2

1 + 1 = 3

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 BBIIIGGG 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

OR

STOCK

Public Company

Private Company

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

OR

STOCK

Public Company

Private Company

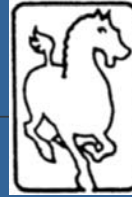
Public Company

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



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