



Ferghana Partners Group Is a Life Sciences
Investment Banking House With Offices in
London and New York.

We Specialize in Creating and Executing
Effective Strategic Transactions for
Pharmaceutical, Chemical, Diagnostic and
Biotech Companies.

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Investing in Biotech

“Different Strokes for... Different Investors”

Dr. William J. Kridel, Jr.
Managing Director



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Basic Investor & Investment Types

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3 Investor Types

- > Private Portfolio Investor
- > Quoted Fund
- > Unquoted Fund

3 Investment Types

- > Private Equity in Private Company
- > Private Equity in Public Company
- > Publicly Listed Equity in Public Company





Selection Criteria Should Vary for Different Portfolios

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- **Quality Considerations**
- **Portfolio Size, Concentration and Liquidity Requirements**
- **Geographic Considerations and Currency Issues**
- **Sub-Sector Coverage**
- **Risk/Reward Profiles, Desired Spreads of Risk/Reward**





Quality Considerations - 1

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- > Investors of all kinds generally have the same goals for “quality selection”
- > The spread of quality will be directly related to the scale and sophistication of a portfolio
- > The more conservative and smaller investors may only focus on the highest quality investees
- > The more aggressive/sophisticated and larger investors may accept a wide spread of quality in their investees



Quality Considerations – 2

So What is Quality?



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Quality considerations:

- > Quality of Science
- > Quality of Clinical Development Programs
- > Quality of Management
- > Potential Market for products
- > Competitive Position of Company
- > Potential Profitability of Company
- > Chances of Regulatory Approval
- > Time Frames for Regulatory Approval
- > Triggers/Catalysts for Timing of Investment Decisions

Values of companies partially reflect quality elements. Pharma/Biotech companies fit into investment tiers by Market Cap.:

- > Tier 1 – Market Cap. \$2billion +
- > Tier2 – Market Cap. \$500 million +
- > Tier3 – Market Cap. < than \$500 million, including “microcaps”





Quality Considerations - 3

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- > **If the proposed investment doesn't meet your quality standards... don't invest**
- > Biggest rewards to investors lie in the “sweet spot” where a company is transitioning into a higher and “better quality” category (e.g. from Tier1 to Tier 2)
- > Biggest Risks lie in one-product companies (or those perceived as such) and commoditizing platform technology companies





Portfolio Size and Concentration

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- > Smaller Fund (under \$50m) 20-50 names, implies \$1-.5million/name
- > Larger Fund (Over \$100m) 50+ names, implies a minimum of \$2million /name
- > Internal Weighting - no position more than 20% of the portfolio
- > Liquidity Requirement – Can Investor sell any position in one trading day?





Geographic Considerations

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- > Likely Weighting of a Global Portfolio 70%US and 30% ROW
- > US focus naturally dictated by the sheer number of qualifying companies, the availability of research, news flow, liquid stock markets, sub-sector selectivity
- > But, “Currency Exposure” element may alter this weighting standard for a Fund/Investor or for its underlying owners if far removed from USD, Euro, or GBP (the 3 key biotech currencies) or if the Fund/Investor is seeking a regional focus (only US?) or if political/legal limits apply
- > Quoted Funds are most sensitive to foreign exchange fluctuations





Sub-Sector Coverage

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Platform Technology companies are currently highly priced and have high beta, but should be represented, to some extent, in all biotech portfolios

Platform Technology

- > Drug Delivery
- > Enabling Technology
 - > BioChip/BioInformatics/CombiChem/Genomics/HTS/Proteomics/etc.
- > Gene Therapy
- > Vaccines
- > Antibodies

Product Company (in one or more TX field)

- (a) Pipeline prospects (size of market to be served, competition, probability of success); and/or
- (b) Actual Sales of products

By Therapeutic Field

- > Oncology
- > Anti-Infectives
- > Anti-Inflammatory
- > Cardiovascular
- > CNS
- > Respiratory
- > Gastro-Intestinal
- > Dermatology Etc...





Risk/Reward Profile

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Suggested partial weighting will depend on the risk/reward profile of the Investor/Fund

| <u>Investor Type:</u> | large/ conservative | nimble/aggressive/ speculative |
|-----------------------|------------------------|-----------------------------------|
| > Tier 1 – | 60% | 40% |
| > Tier 2 – | 25% | 30% |
| > Tier 3 – | 15% | 30% |

By applying the other selection criteria to any portfolio, one simply narrows the choices within a given Tier for the risk/reward profile!

