Evaluate Vantage

February 11, 2014

Licensing activity dips but up-front payments hold up

Joanne Fagg

The scramble for pipeline assets that marked the past few years might have slowed, but when it comes to licensing deals it seems that scarcity and sky-high asset valuations are helping to keep up-front prices high.

Data from *EvaluatePharma* show a dip in the number products changing hands through licensing deals last year, but a big jump in the amount of money committed up front. Meanwhile the total deal value – an admittedly theoretical and often unrealistic figure – was not far off the average for the last five years. For those companies looking to beef up late-stage pipelines, the data confirm that deep pockets are required (see tables below).

The table above paints a picture of all the products that changed hands via licensing deals or product acquisitions over the past five years. Biogen Idec's acquisition of Elan's share of Tysabri has been excluded; stand-out deals do happen, but the $3.5bn price tag of this transaction would skew the figures.

The breakdown reveals a gradual slowdown of product deals across all stages of development over the last couple of years; this is not surprising given that big pharma, the traditional licensing-hungry partners, have largely calmed their patent cliff fears with a frantic few years of deal making.

Some remain more active than others – AstraZeneca, for example, is still an enthusiastic licensor willing to pay big bucks. It paid Fibrogen $350m up front for the phase III anaemia treatment roxadustat, a deal that represents almost half the total amount of money committed to phase III projects across the whole of the year.

Emerging themes

Despite annual fluctuations, this broad analysis supports some emerging themes. For example, the price and popularity of late-stage, phase III assets have remained high over the past five years. However, the data also seem to show that the scramble for phase II and particularly phase I assets has slowed in the wake of the pipeline-filling boom of 2009 and 2010.

This is largely supported by the average deal terms in the table below, which excludes transactions for which terms were undisclosed. The decline in value of phase I assets is particularly marked here. One explanation might be the growing popularity of wide-ranging research collaborations, often struck to conduct preclinical work around certain technologies. These could be supplanting desires to bring in single, early-stage assets.

Average deal terms for clinical stage assets								
	Average up-front payment ($m)				Average deal value ($m)			
	2013	2012	2011	5-year avg	2013	2012	2011	5-year avg
Phase III	70	28	36	37	247	247	145	204
Phase II	38	31	38	38	221	215	230	268
Phase I	8	12	16	17	85	85	61	140
All clinical	40	25	31	33	202	159	242	219

The Astra-Fibrogen deal was responsible for the big jump in the average paid up front for a phase III asset last year, and it is interesting to note that the average paid for a phase II or III asset over the past five years is largely the same. This metric shows how, for companies facing the decision on whether to self-fund pivotal studies or seek a partner, the investment might not necessarily result in a substantial hike in value.

The data also show that, while fewer products seem to changing hands at phase II or III, the price paid to secure these assets is showing no signs of declining.

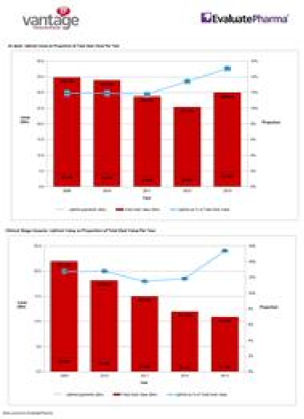
However, what does seem to be dipping is the total value of these transactions. This is particularly marked in clinical deals, as the graph below shows; this also plots the proportion of the up-front to total deal value, a metric that has risen from 13% to 15% over the past five years, largely thanks to the total deal value falling.

Perhaps, cognisant that these top-line maximum potential values are considered largely meaningless, companies have stopped disclosing some of the more back-end terms. Big buck “bio-dollar” deals might be great at generating headlines, but the various milestone payments totted up to give a value are a long way from money in the bank.

And while financing conditions might have improved, licensors will still be acutely aware of the benefits of jam today.

M&A activity last year – when more was spent over fewer transactions – clearly reflected ballooning asset prices (*Pharma M&A values buoyed by climbing asset prices, January 23, 2014*).

This surge in valuations cannot be seen as clearly in licensing data. However, should up-front payments for late-stage clinical assets hold up and continue to climb as a proportion of deal values, it will be hard to dismiss the link.



All data sourced to EvaluatePharma.

To contact the writers of this story email Amy Brown or Joanne Fagg in London at AmyB@epvantage.com or JoanneF@epvantage.com or follow @AmyEPVantage or @JoEPVantage on Twitter.