

Deal Structuring with ri:val

Business developers are often faced with the problem of what deal terms are realistic. In the public domain most often only the upfront payment and maybe the overall sum of milestones (the so-called bio-dollars) are available. This is of little help when you have to structure a term sheet. What is a pharmaceutical company ready to pay for a project like ours?

But the company actually needs USD 5 Mio upfront in order to fund the coming year. This would allow them to delay the next funding round to the stage when another project has received an IND.

No problem, the business developer says that he wants to fix the upfront payment to USD 5 Mio and let change the other milestones accordingly. Again, ri:val proposes these terms:

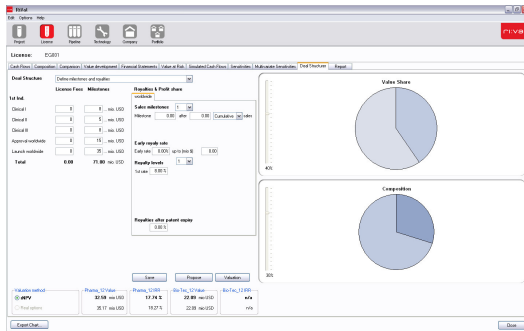


Figure 1: Deal Structurer in ri:val

With ri:val deal structuring is made easy. Input the project with its timelines, costs, success rates, and sales projections. ri:val then proposes you deal terms that comply with the industry average terms of value share, royalty rates, and milestone stepping. The business developer gets a first idea of what is realistic for a project like the one he is trying to partner right now. ri:val proposes for the phase I project of the business developer the following terms:

Table 2: Proposed deal terms by ri:val for a USD 5 Mio upfront payment

	USD Mio
Upfront	5
Phase 2	1.2
Phase 3	1.9
Filing	3.7
Approval	8.7
Royalties	8.3%

The business developer thinks whether he wouldn't better let the royalty rate go down to 5% in exchange of higher milestones. Playing with the deal terms again, he receives the following term sheet:

Table 3: Proposed deal terms by ri:val for USD 5 Mio upfront and 5% royalties

	USD Mio
Upfront	5
Phase 2	3.1
Phase 3	4.6
Filing	9.2
Approval	21.5
Royalties	5%

Table 1: Proposed deal terms by ri:val

	USD Mio
Upfront	1.7
Phase 2	3.4
Phase 3	5.2
Filing	10.3
Approval	24.1
Royalties	8.3%

Finally, the business developer is well aware that the term sheet will be negotiated down until the final agreement. He therefore wants to generate deal terms like the ones in table 3, but giving a 40%-60% value



share instead of only 25%-75%. Simply by adjusting the value share and recalculating the business developer retrieves the fourth term sheet from r:val:

Table 4: Proposed deal terms by r:val for a 40%-60% value share

	USD Mio
Upfront	8
Phase 2	4.9
Phase 3	7.4
Filing	14.8
Approval	34.3
Royalties	8%

This is now a term sheet that the business developer is happy to send to his counterparty. He proposes them ultimately the following terms, based on these previous calculations:

Table 5: Final term sheet

	USD Mio
Upfront	8
Phase 2	5
Phase 3	8
Filing FDA	10
Filing EMEA	5
Approval FDA	20
Approval EMEA	15
Royalties	8%

In less than 5 minutes the business developer has come up with four term sheets. He knows what's realistic and what his offered term sheet knows to the counterparty. He could play around with back- and front-loading the deal, fixing the upfront payment, and increasing the terms to match a required value share.