2011 Dealmakers Outlook
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William Looney, Editor-in-Chief

Article Introduction:
"With Yankee stadium as the backdrop, *Pharm Exec* convened on March 29 its annual panel of eight business development experts to crack the bat on best practice in licensing and M&A for the year ahead. What follows is a summary of the group's discussion, with the major conclusion being that the quest continues for that rare triple play: finding a good, well-differentiated asset; forging a productive partnership around it; at a price that compensates for the warp speed curve ball of risk. Now that the best deals are getting more scarce, it's no time for rookie performance." For the full article, please go to http://pharmexec.findpharma.com/pharmexec/Deals/2011-Dealmakers-Outlook/ArticleStandard/Article/detail/726081

The following are quotes from Randy Guggenheimer, Managing Director, Young & Partners, in response to questions from William Looney.

WL: *Market dynamics do count. Is it a problem that the industry appears to be embracing the same approach to licensing? Like the "lemmings off the cliff" analogy, could we all be pursuing the same opportunities to the detriment of optimal returns?*

Randy Guggenheimer, Young & Partners: The industry tends to talk to the same experts. It is not surprising that companies will form similar conclusions. On the science side, discoveries are made, the papers are written, everyone reads them, and judgments are made as to whether these open a new commercial pathway. Companies also know that valuations are determined in part by what Wall Street likes. People have to pay attention because if Wall Street is already fired up then the deal will be seen as attractive.

WL: *Is there no sense that increased federal financial support for drug discovery could help counter any pullback by a risk-averse private sector?*

Guggenheimer: The current pipeline emphasis on specialty orphan drugs has not been evaluated in terms of the impact on pricing and future innovation. The prices for many of these inventions are staggering, the treatment effect is sometimes quite modest, and the eligible population is low. If the industry allows the perception to root that these "designer drug" prices represent the norm, then it is in trouble politically.

WL: *Considering that collectively these drivers are making the deal-making environment more volatile, what practical measures are companies taking to mitigate risk?*

Guggenheimer: The best protection against risk is the new product that can be acquired or licensed right after FDA approval. Despite the other options, this remains the gold standard. The problem is there are fewer such products, which increases the appeal of these alternative approaches.

WL:*What are some of the new or emerging tools that companies are using to make the licensing transactions process more predictable? What's on the horizon?*

Guggenheimer: Contingent value rights are becoming more complex and customized to minimize risks to buyers in the deal. A good example is the contingent rights clause built into the Sanofi acquisition of Genzyme, which includes commitments to shareholders to maintain manufacturing capabilities, to obtain speedy registration of a new MS drug, and to meet sales milestones for this potential blockbuster over time.

WL: *Looking ahead two or three years, what will be the key characteristics of the deal-making environment, and how do you intend to prepare for them?*

Guggenheimer: There is going to be more competition for a few good assets. This scarcity will drive the price of these assets very high, and business development people will push to pay top dollar simply to seal a deal and justify their existence. We haven't mentioned it, but I expect that Big Pharma companies have an annual target number of deals to get done. This can no doubt lead to some crazy valuations.