



# THE VALUATION EXPERTS

## Valuation for Fundraising

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# Overview



- **Introduction to Valuation**
- Value Drivers
- Company Valuation
- Conclusion

# Company

## Mission

Valuation: Independent assessment and valuation

Biotechgate / Life Sciences Databases



HelloPartnering – Speed dating for business



## Offices

HQ: Zurich with offices in Europe, North America and Asia

## Employees

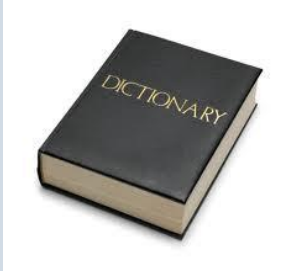
35+ people in Switzerland (7) / UK & Ireland (9) / USA & Canada (3) / Singapore/China (2) / India (15)

## Clients

Fundraising companies as well as Investors such as Novartis Venture Fund, GSK, European Investment Bank, 4SC, Arpida/Evolva

Biotech Associations / Governments like CLSA, Medicon Valley, Ausbiotech, SwedenBio, Goteborg, Maryland

# Valuation - Why?



- **Value:** implies the inherent worth of a specific thing
- **Price:** depending on the market (supply / demand); whatever somebody is prepared to pay

“Price is what you pay. Value is what you get.”

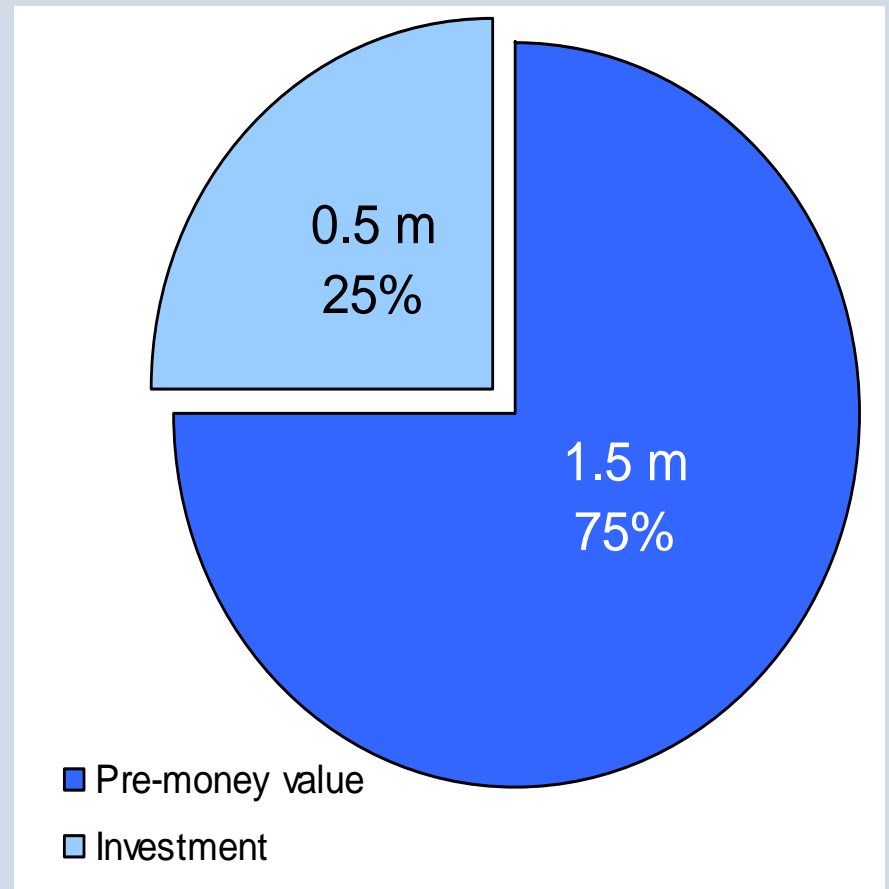
By Warren Buffett

=> Provide basis for negotiation, investment decision, fair share price

# Valuation - Why? (I)



- Value before investment (pre - money value): EUR 1.5m
- Investment: EUR 0.5m
- Value after investment (post-money value): EUR 2.0m
- Share Investor:  
 $0.5m / 2.0m = 25\%$



# Valuation - Why? (II)



- Out-licensing of a phase II product
- Deal terms:
 

up-front	CHF	1m
milestones	CHF	20m
royalties		7%
- rNPV of product ?
- rNPV of deal ?
  
- ⇒ rNPV of product: CHF 30m
- ⇒ rNPV of deal: CHF 10m
- ⇒ Split Biotech / Pharma: 33% / 66%

rNPV: risk adjusted net present value

# Valuation - What?



## 1. Valuation of a product

⇒ Licensing deal

⇒ Strategic development decision



## 2. Valuation of a company

⇒ Investment / Financing round

⇒ Merger / Acquisition

⇒ Measure success of company development



# Mindset of Investors

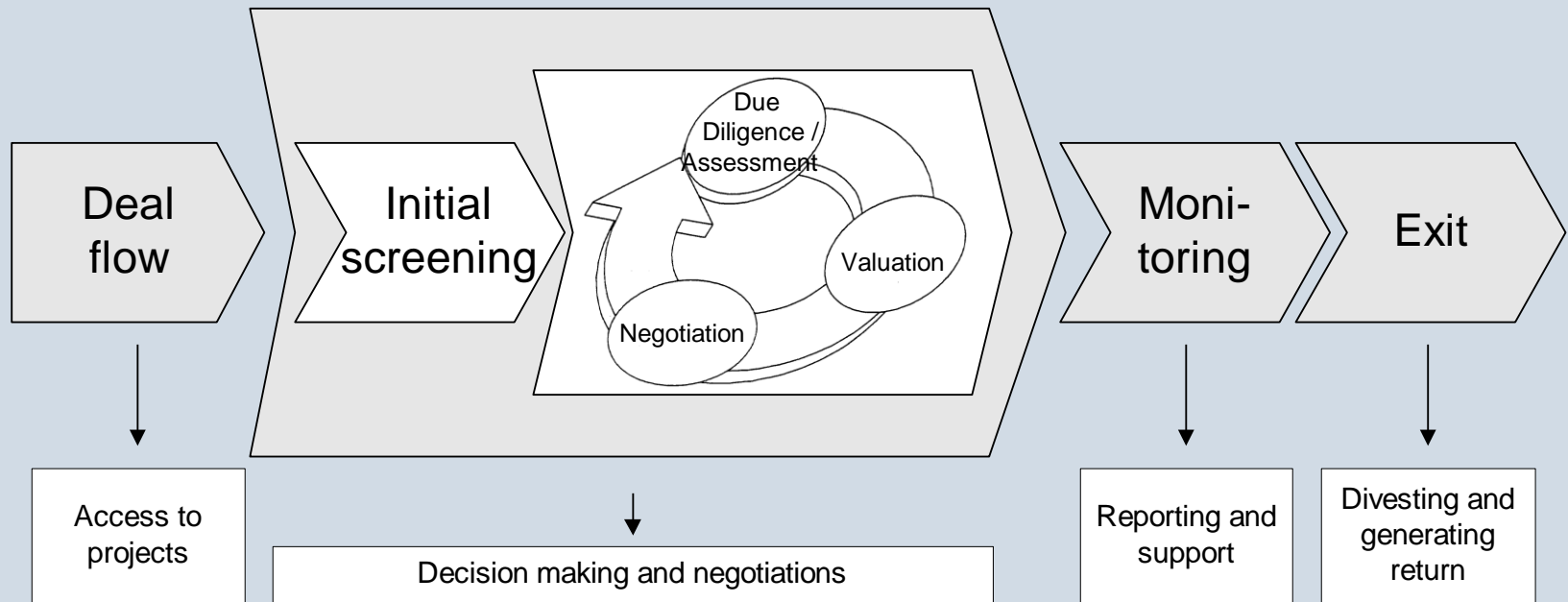


- Take high risk, but expect high returns
- Pressure from investors
- Compete in capital market

	Probability of failure	Return
Government Bond	0%	1%
Bonds	5%	5%
Blue Chip Company	10%	9%
Internet company (Nasdaq)	50%	20%
Biotechnology Company	80%	50%



# Investment Process



# Investment Process



## EXIT

- Investors look for exit possibilities to realize return
- Sales of shares → very difficult
- An exit via different channels is possible:
  - Merger & Acquisition (M&A)
  - Management Buy-out (MBO)
  - Initial Public Offering (IPO)

# Biotech Valuation



- Valuation is a key issue in development
- Industry lacks transparency (private)
- Very difficult (high uncertainties)
- High potential for investors
- Long investment cycle
- Traditional valuation methods unsuited
- Complex technology and IP situations

# Risk as a Major Factor



1. How can we capture risk?  
=> Assessment of the company
  
2. How can risk be quantified?  
=> Rating of factors

# Assessment



1. Understand the fundamentals
  2. Assumptions drive the valuation
- ⇒ Assessment/assumptions are key

## Assessment

## Company

## Product

1. Management



2. Market



3. Technology



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# Assessment



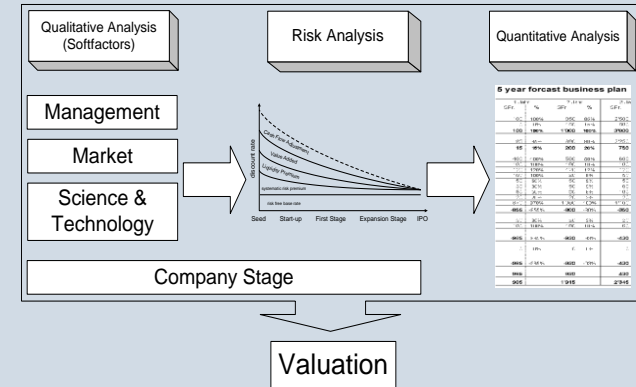
## Why is assessment important?

- Valuation is all about assumptions
  - Understand the risk
  - Quantify the risk
  - Different perception of company
- Value drivers

# Value Drivers



- Management / execution
- Market
- Science & Technology
- ... and the company stage
- Define the risk profile of company



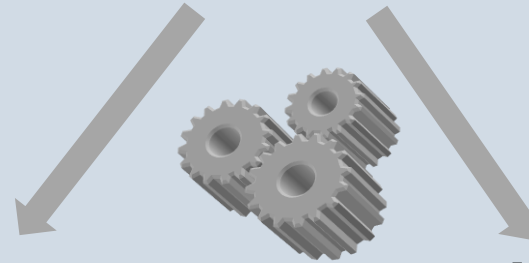
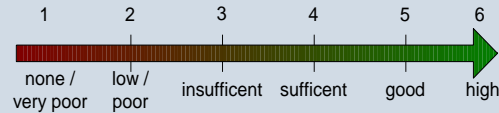
**Investors are looking for low risk, high potential**



# Assessment to Valuation $\nabla$



Assessment => Define risk



**DCF\*:**

Discount rate

- Non-therapeutic company
- Technology platform

**rNPV\*\*:**

- a. Discount rate
- b. Success rate

- Therapeutic product company

\* DCF: Discounted Cash Flow

\*\* rNPV: risk adjusted Net Present Value

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# High Growth Companies



- Often no revenues, no earnings
- Value = potential of the future and associated risk
- Influencing factors:
  - Management
  - Market
  - Science and Technology
  - Stage of company

# Valuation Approaches

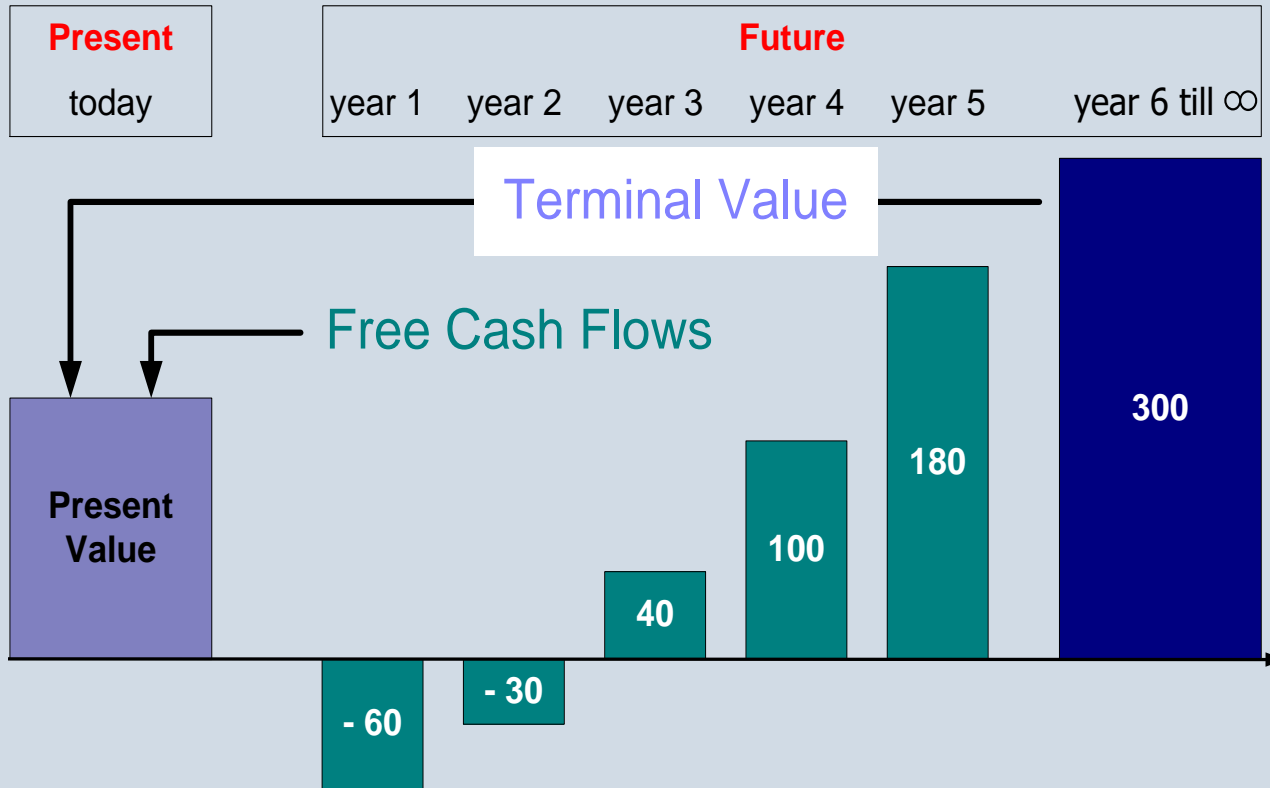


- Operations-based methods:
    - ⇒ *business plan, fundamentals*
  - Market-based methods:
    - ⇒ *price, trends, comparison difficulties*
- 
- Discounted Cash Flows (DCF) } Operations methods
  - rNPV } Operations methods
  - Real Options } Operations methods
  - Venture Capital method ⇒ Mixed method
  - Market Comparables } Market methods
  - Comparable Transactions } Market methods

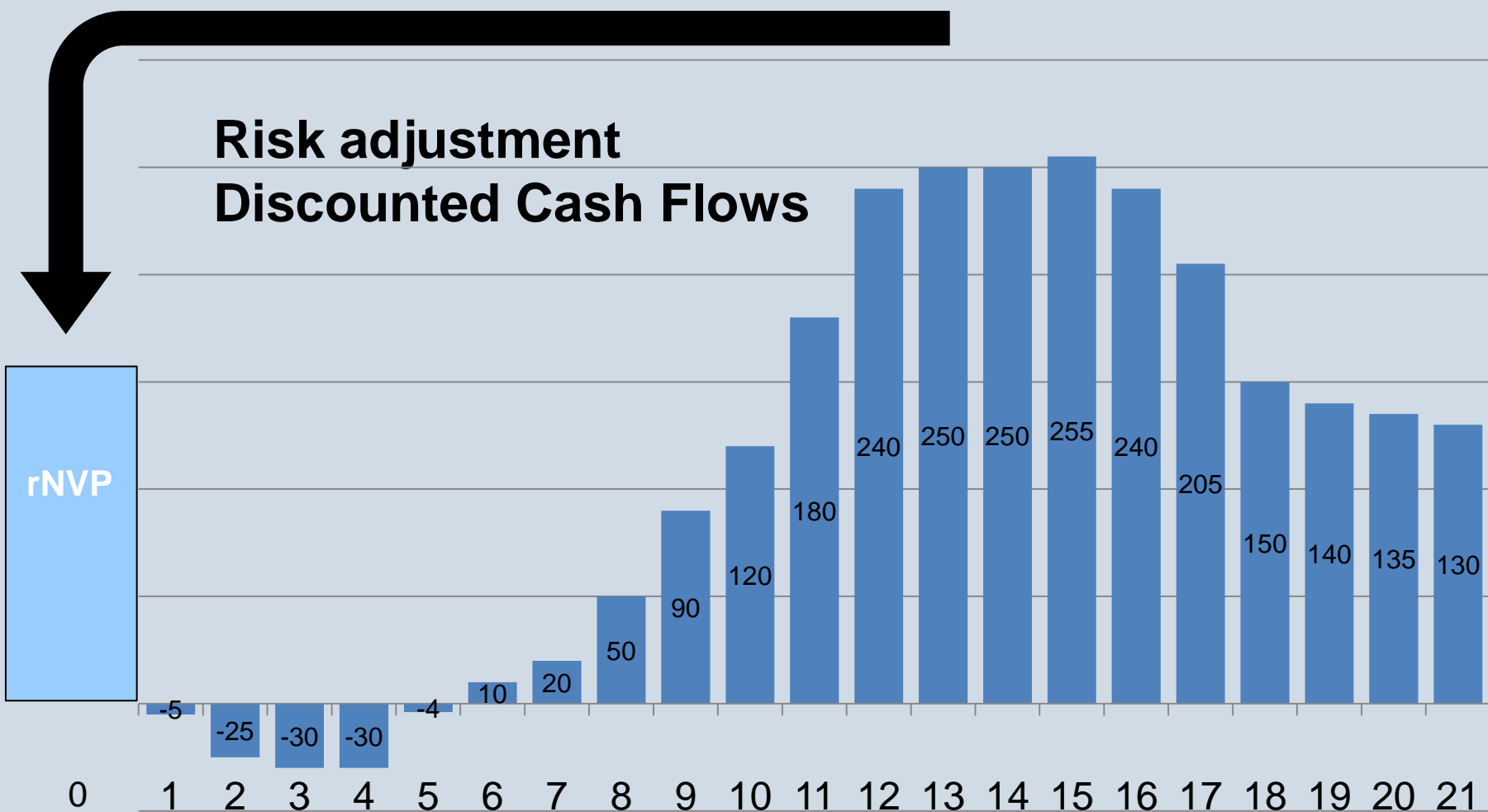
⇒ there is no “the right method”

⇒ combination of different methods

# Basic DCF



# rNPV Valuation



# Comparable Methods

For most Biotechs you cannot use:  
P/E, EV/EBITDA, EV/EBIT, EV/Sales



Company Value:  
USD 50m  
50 employees

Ratio



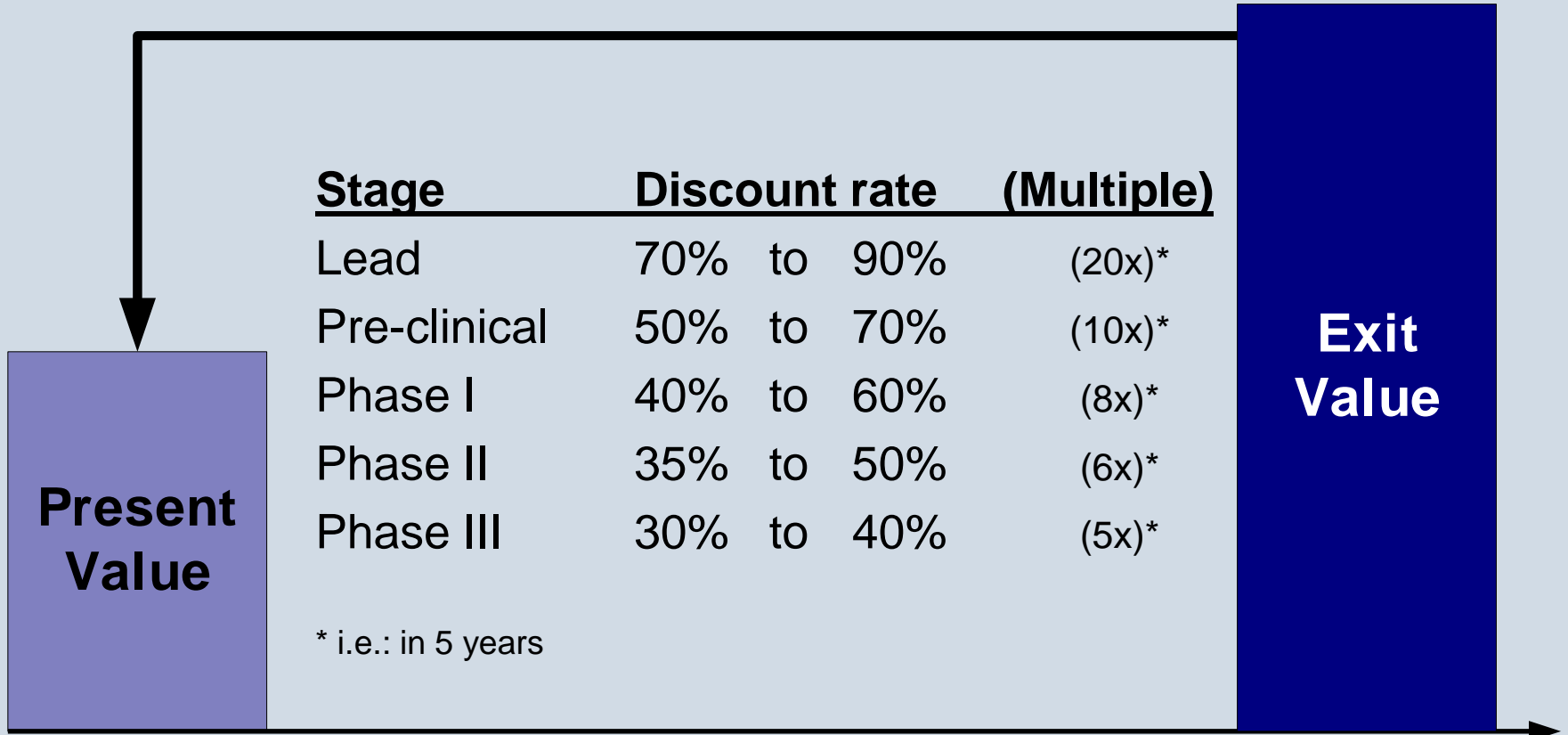
- R&D expenditure
- Employees
- Money raised
- Product in development (PhI, PhII, PhIII)



10 employees  
⇒ Company Value:  
USD 10 m\*

\*  $(50/50) \times \text{USD } 10\text{m} = \text{USD } 10\text{m}$

# Venture Capital Method



**Present**  
today

**Future**  
year 1 —————> Exit year



# Conclusion



- Valuation is key in development of Biotechs / LS
- Value = future potential and risk
- Valuation is not an exact science
- It's all about the assumptions



# THE VALUATION EXPERTS

Thank you for listening!

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