



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

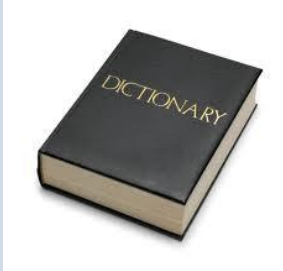
35+ people in Switzerland (7) / UK & Ireland (9) /
USA & Canada (3) / Singapore/China (2) / India (15)

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.”

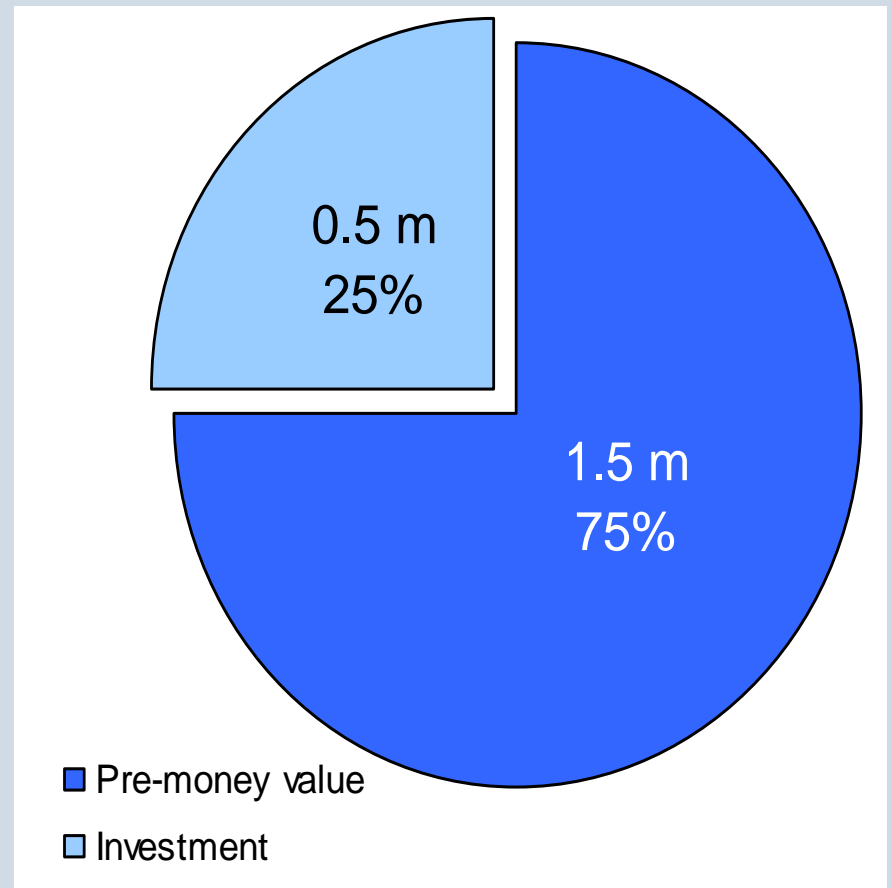
By Warren Buffett

=> 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



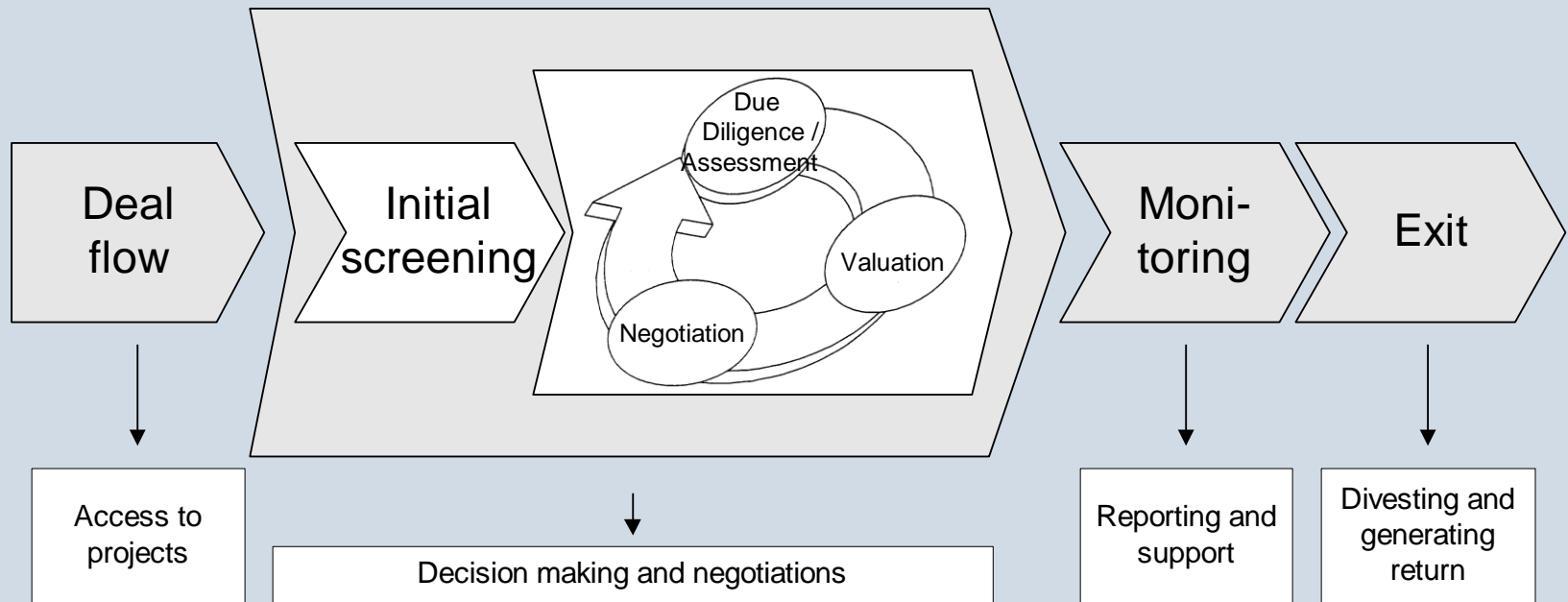
Mindset of Investors



- 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

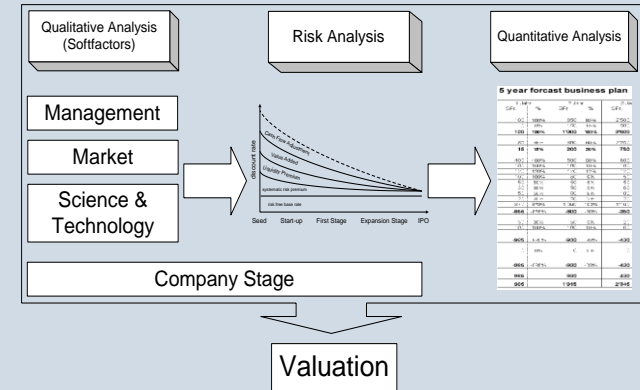


Why is assessment important?

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

Value Drivers

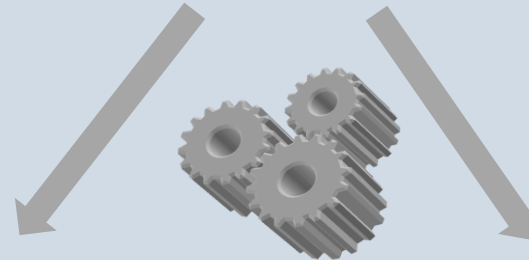
- Management / execution
- Market
- Science & Technology
- ... and the company stage
- Define the risk profile of company



Assessment to Valuation ∇



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

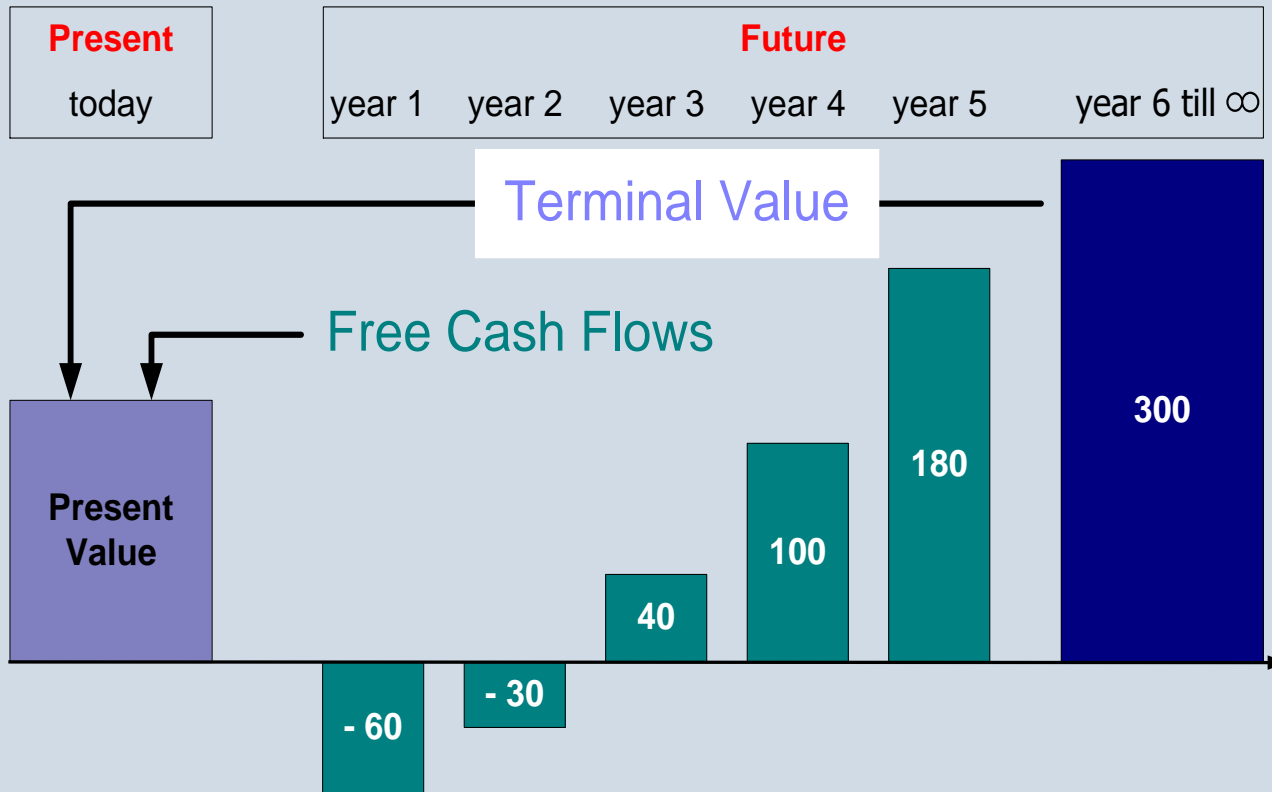


- Operations-based methods:
 - ⇒ *business plan, fundamentals*
 - Market-based methods:
 - ⇒ *price, trends, comparison difficulties*
-
- Discounted Cash Flows (DCF)
 - rNPV
 - Real Options
 - Venture Capital method
 - Market Comparables
 - Comparable Transactions
- } Operations methods
- ⇒ Mixed method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

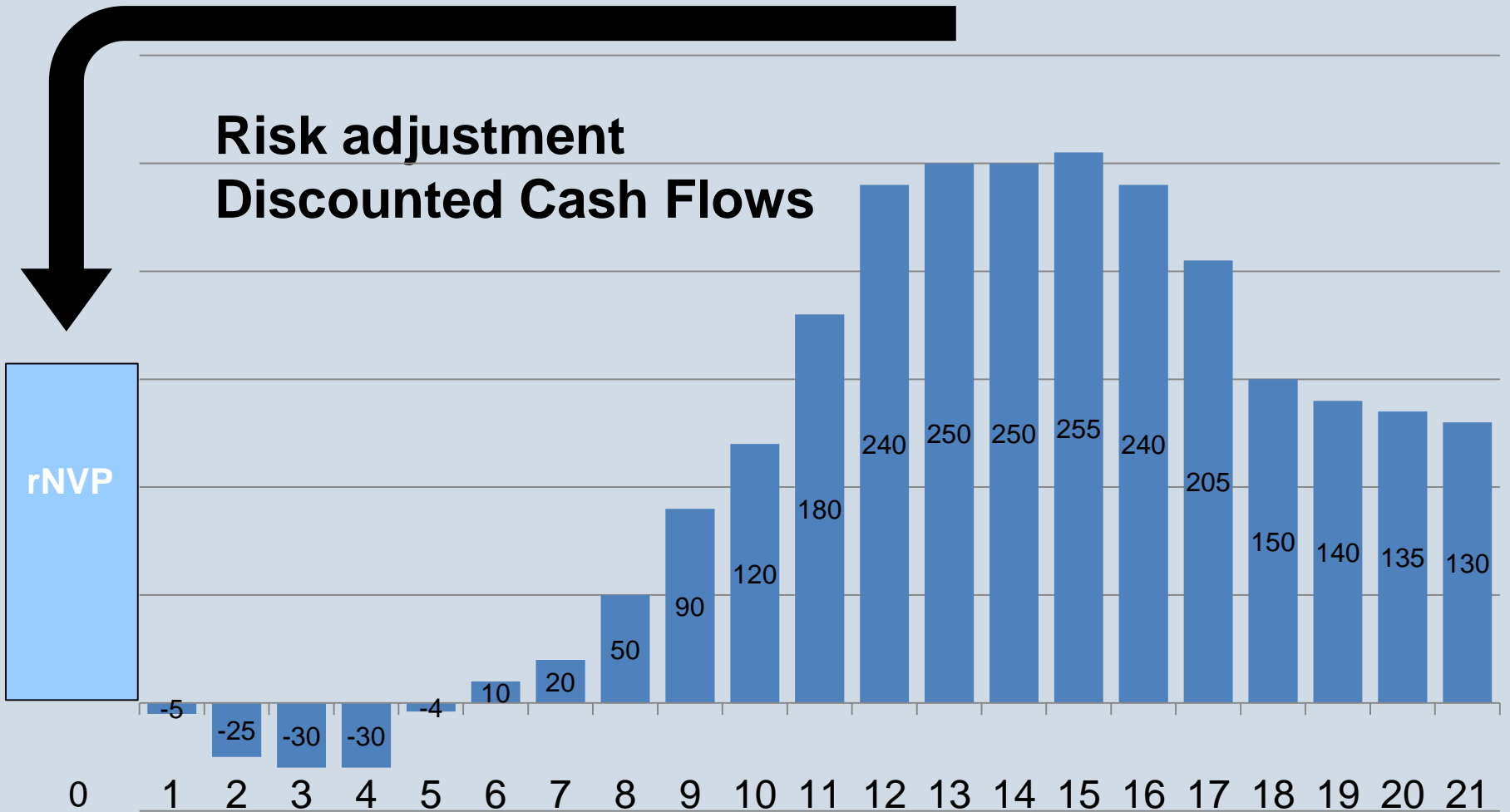
⇒ there is no “the right method”

⇒ 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



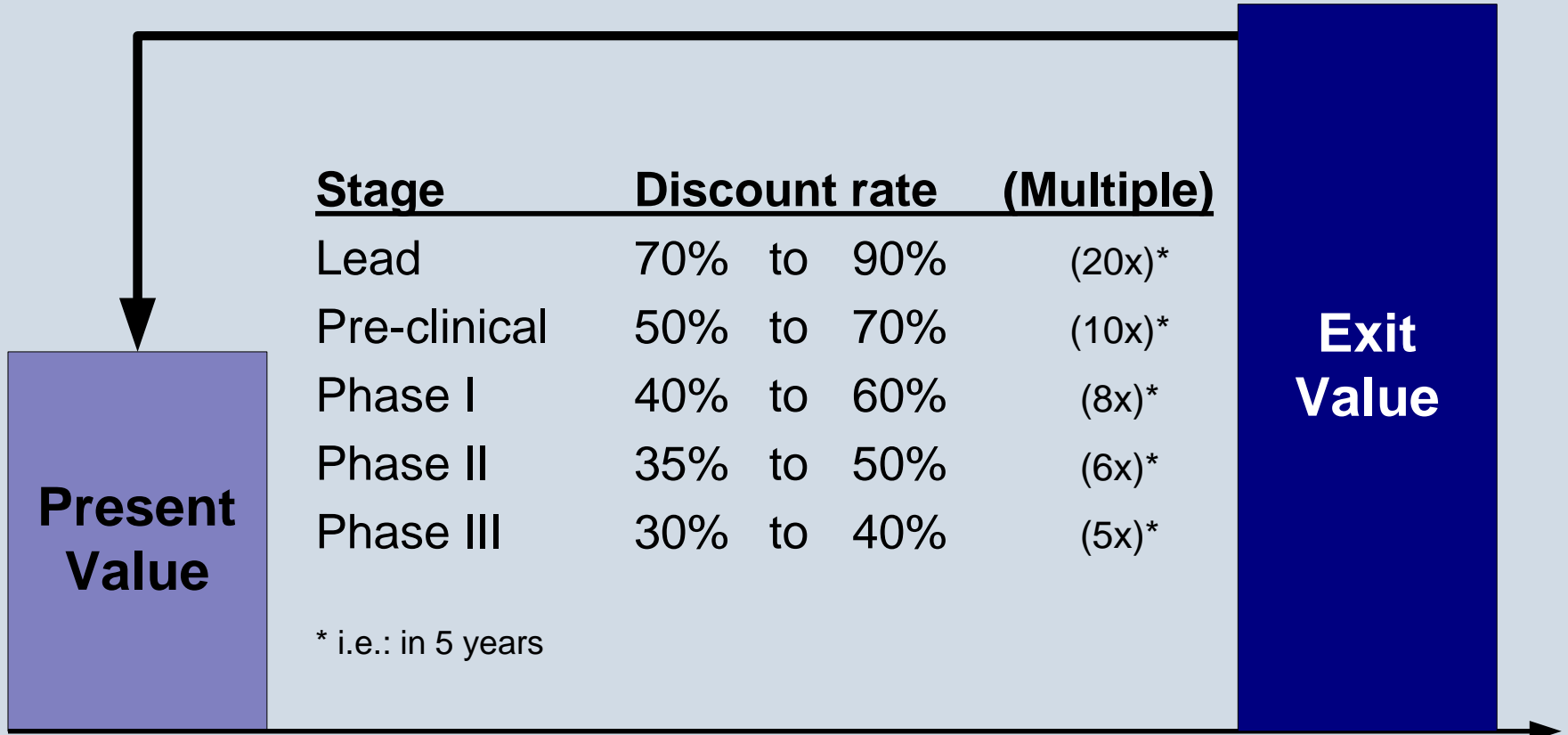
- R&D expenditure
- Employees
- Money raised
- Product in development (PhI, PhII, PhIII)



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



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Thank you for listening!

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