Win–win licensing deals

Delegates from pharmaceutical and biotechnology companies met in London in March to learn how to obtain the best results from licensing deals. The meeting highlighted the experiences, good and bad, of large and small companies, and explored how to identify, negotiate and manage win–win licensing deals for the pharmaceutical industry.

Why should there be such an interest in licensing activities? This was explained in the keynote lecture by Rolf Stahel, Chief Executive of Shire Pharmaceuticals (Andover, UK). He outlined the pressures on the pharmaceutical industry arising from restrictions in healthcare budgets and the increasing costs of R&D. He highlighted what Dr Jürgen Drews of Hoffman-La Roche has described as the NCE product gap – the shortfall in new chemical entities likely to result from present levels of R&D spending within major pharmaceutical companies. Licensing could be an important strategic response to this shortage of new products. The win–win potential arises from the emergence of the new pharmaceutical and biotechnology start-up companies, which are usually characterized by having more ideas than cash. Through licensing, the small company can benefit by finding a likely development and marketing partner, as well as sharing the costs of the research and obtaining a valuable endorsement of its technology.

The existence of an innovation gap and need for licensing were not questioned by the audience, but there were questions as to how to achieve the best deals.

Pespective of big pharma

Experiences from the perspective of large pharmaceutical companies were provided by Dr Bob Nolan of Zeneca (Macclesfield, UK) and Dr Hans Mohr (until recently with Ciba Geigy, Basel, Switzerland). The role of licensing departments and the difficulties of obtaining both technical and commercial evaluations of licensing opportunities were discussed, with a general agreement that these evaluations are difficult to achieve on a realistic timescale.

However, small companies are not passive partners waiting to be wooed. They are actively seeking suitors, and they need to seek out those most likely to have a strategic interest in their particular offering. The importance of preparation for negotiation was emphasized by Dr Stuart Robinson of Andaris (Nottingham, UK).

'Not invented here' syndrome

Dr Robinson also discussed the continuing presence of the 'NIH' syndrome – 'not invented here'. Although this disease is widely reported to have been eradicated from all forward-thinking companies, Dr Robinson suggested that it had just mutated to a less obvious form. Its causes – a scepticism of work performed outside the big company, a lack of 'team spirit' and fear of loss of resources – remained. However, cures are available: good science underpinning a viable product concept, good personal relationships and involvement of both sides in developing the project. If NIH syndrome is not addressed, licensing will not occur.

NIH and other aspects of corporate culture were entertainingly analysed by Sharon Finch of Medius. Although small companies are clearly different from large companies ('well, boys are different from girls, aren't they?'), there were also considerable differences between the pharma majors in terms of their licensing activity. Some, such as Glaxo Wellcome and Merck, have obtained less than 25% of their products by licensing, whereas others, including Abbott and Roche, have licensed in more than 35% of their products. However, all these companies have common cultural problems relating to licensing:

- they have been surprisingly risk-averse,
- they exhibit corporate inertia, and
- they had poor awareness of the opportunity costs and the potential strategic damage of missed licensing opportunities.

The need for adequate resources and commitment of higher management was emphasized, as was the fact that the license deal was often only the beginning of a relationship. Good communications and project management were stressed by almost every speaker as being essential for the success of a licensing arrangement.

Win–win deals are vital for both players

The meeting provided ample examples and case studies from all points of the drug discovery and development spectrum. There seemed to be remarkable agreement that win–win deals were not only possible, but were the only type worth going for. This situation seems to arise from the matching needs of the two main players in the deal, big pharma and young start-up company. For the large company, licensing can be a vital means to shape the product portfolio and it can improve the returns from investment in R&D. For the start-up company, licensing can reduce the cash-burn and offset some of the risk of early-stage research, while providing access to development and marketing expertise.

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In short ...

Lion Pharmaceuticals (Baltimore, MD, USA), a company specializing in the development of small-molecule drugs emerging from major research universities, was launched in June. The company's founder, President and CEO is Dr Robert A. Curtis, who previously founded Combichem. Dr Michael J. Antonaccio, formerly Vice President of Strategic Drug Development at Human Genome Sciences, has joined the new company as Chief Scientific Officer. Lion's first contract is with the Johns Hopkins School of Medicine; they currently fund three research programs there.

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