In Europe, Lundbeck licensed the rights to Memantine from Merz in 2000, in an agreement also comprising the rights to the indications vascular dementia, neuropathic pain and AIDS-related dementia. While Forest Labs held the rights to the US market, Merz also co-developed Memantine in Japan with its partner Suntory. This agreement is a good example of co-development collaborations across different geographies to create value for multiple companies, each with its own unique set of capabilities.

Commercial in-licensing / Co-promotion: to rapidly expand geographical coverage

MidPharmas have also been creative in finding more immediate collaboration deals to generate value from assets in non-core geographies. For example, in October 2012, Astellas launched Gonax (degarelix) in Japan after it entered into a license agreement with Ferring in January 2006. The agreement gave Astellas exclusive rights to develop and market degarelix for the treatment of prostate cancer in Japan. Astellas made upfront and milestone payments as well as royalties to Ferring, enabling Ferring to secure value from the Japanese market.

Another example of exploiting the commercial capabilities of others without the need for M&A is that of Teijin and Ipsen, who entered a successful agreement that saw the launch of Somatuline® in Japan in January 2013. The agreement entitles Teijin to develop and commercialise Somatuline in Japan, while Ipsen will manufacture and supply the finished product to Teijin. This partnership allows Ipsen to penetrate the Japanese market through its partner.

In the other direction, in June 2015, Servier bought the rights to TAS-102, an oral anti-cancer drug from Taiho, in a $130m deal made of upfront payments and near-term milestones on top of royalties. Servier will commercialise TAS-102 in Europe and other markets excluding Asia and North America. The two companies will also collaborate on the development of the drug globally, sharing costs and research.

Commercial partnering: to exploit unique local capabilities

At the capability end of partnerships, MidPharma Helsinn is a good example of a company that leverages the commercial capabilities of external partners. It in-licenses early-to-late stage new chemical entities, completes their development by performing pre-clinical/clinical studies as well as associated manufacturing activities, and then prepares the necessary regulatory filings in order to achieve marketing approvals worldwide. Helsinn's products are out-licensed to its global network of marketing and commercial partners that have been selected for their local market knowledge.

Through this capability sharing rather than M&A approach, Helsinn has built a large product portfolio of cancer care products that are sold through alliances with around 70 global partners. One of those latest partnerships is Helsinn's collaboration with Mundipharma in March 2015, where it entered into a distribution and license agreement for the exclusive rights to sell anamorelin in China.

Research collaboration: to create new assets through exploiting shared capabilities

An earlier stage example of how MidPharmas can work together to create value lies in Orion and Richter, who in March 2013 entered into a comprehensive and long term collaboration agreement for the discovery and development of new chemical entities in the field of cognitive disorders. The partnership agreement provides an opportunity whereby the two companies jointly select and bring forward three discovery phase candidates and share all the development related expenses on an equal base.

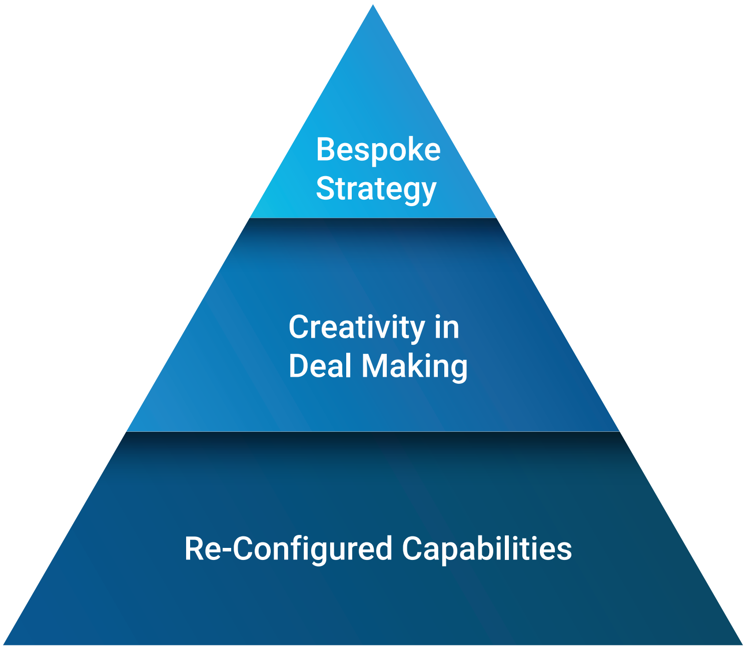
This type of partnership will strengthen the research outcome of both companies in a cost and time efficient way, adding to current knowledge and experience, resulting in mutual benefit for both parties. At the time, the Senior Vice President of R&D at Orion stated: "A fundamental pillar of our R&D model is to seek collaborations that leverage the strengths of both organisations, and at Richter we have found scientific skills and an organisational culture that will likely result in a successful partnership. This collaboration increases the probability to succeed in this challenging therapeutic area."

The above examples are a very small but illustrative selection of the variety of potential deals that companies can originate. Other paths can be explored that can bring mutual benefits to both parties involved. In the remainder of this paper we therefore explore in more detail the key drivers of successful partnerships.

Driving sustainable partnering success

There are plenty of historic deals that went wrong in one way or another, suggesting that many companies have still not reached the point where partnering is a natural and successful complement to internal activity. The first important point is that partnering success is not just about pushing harder on business development. Organisations need to be clear about what partnering is for, why it is essential in their unique context, and how their own organisation can embrace it and benefit from it. This requires attention to three important areas.

For successful partnering, pharma companies need to think differently about what they do and how they work



Bespoke Strategy

Creating excellent partnerships is a highly strategic activity. So a tailored and bespoke partnerships strategy that is rooted in a deep understanding of company's capabilities and selling points in the eyes of potential partners is essential. Companies must choose their business and product portfolio strategies to match corporate goals and capabilities, and determine the right balance between internal and external sources for their future success: opportunistic deals made with little clear strategic vision have a habit of ending early or being terminated as the realities set in post deal signing.

"Knowing thyself" in a profound way enables companies to understand their own unique and differentiated capabilities and selling points, and thereby be both more attractive to potential partners and able to create synergistic and adjacent opportunities with partners. Articulating this understanding of capabilities and aligning behind the vision for improving it through a bespoke partnerships strategy can create significant benefits downstream.

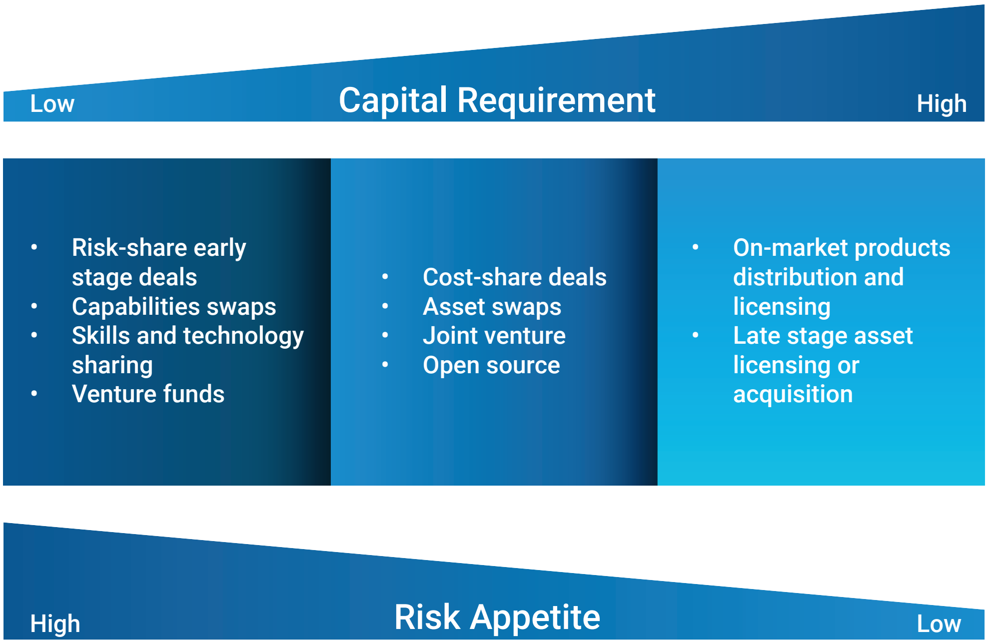
Creativity in Deal Making

Due to the increasing capital required to acquire or license high quality assets, companies need more than ever to think creatively about deal structures and look for non-obvious synergistic and adjacent opportunities with partners. Deal structuring has to set clear win-win deliverables and milestones in partnership agreements, which should be discussed early on during the negotiation phases, with a good assessment of the financial, scientific and clinical risks involved.

Based on their own risk appetite and capital at hand, companies can then identify strategically the best partnership models that fit their needs. Early discovery projects tend to carry more risks and may require specific technologies and capabilities, models such as risk-sharing and capability swapping may be attractive. Exploratory development projects (from preclinical through to clinical proof of concept) are typically less risky than discovery projects, and companies that want to spend more on compounds that have passed the candidate stage can benefit from cost-sharing and asset swap deals in this phase.

Companies can also consider setting up corporate venture funds, when capital is available, to invest in interesting small biotech companies early on, with options to in-license if assets meet key milestones. We show below a non-exhaustive table of potential deal types to illustrate the plethora of possibilities companies can now create. Partners can and should tailor their deal structures based on their synergies and their mutual needs, so creativity in deal-making can be a real source of advantage.

The capital at hand and risk appetite of shareholders should drive the choice of deal type



Re-configured Capabilities

The hardest yet arguably most important part of creating successful partnerships lies in re-configuring internal capabilities. Partnering for many pharma veterans is sadly not a natural act. Culturally, companies can prefer the control and comfort of doing things themselves (or acquiring and absorbing companies to effectively do the same) to the uncertain and more messy world of dealing with other companies and associated stakeholders and investors. For a company to successfully embed a partnership culture in the organisation it also needs to address its own “silos”, which can have major implications on the internal organisation and the interfaces between major functions such as Commercial, R&D and Business Development.

To add to the complexities of internal cultural issues, “virtual fences” can be inadvertently established between the internal and the internal/external partner’s teams, often driven by a resistance to partnering or outsourcing or lack of trust in the partner’s capabilities. Time should therefore be invested to first remove any internal barriers to collaboration in the organisation, then to genuinely know the partner and build strong inter-organisation bridges to cement ties at all levels of the organisation.

Collaborations can also be used as a platform for the transfer of knowledge in complementary areas, ensuring a constant flow of information and transparency. Consideration of the cultural fit with the partner is therefore also very important for the success of the partnership and for the improvement of internal capabilities that can and should result from good partnerships.

Partnerships are mission critical and certainly not ‘business as usual’

In summary, partnerships are both mission critical for the pharmaceutical industry and a potentially stronger alternative to immediate M&A for getting the most out of other companies’ assets and capabilities. Furthermore, companies that engage in partnerships as a potential prelude to a later M&A can get a double benefit from giving the partner company room to develop and giving the acquirer a taste of what they will acquire.

Sadly as yet many pharma/biotech companies, and mid-sized pharma companies in particular, are missing out on potential value-adding strategic partnerships, either because they have not actively considered or found other companies with non-obvious synergies or adjacencies that could be great partners, and/or because they are not visible enough in the right way to other potential partners.

Both short and long term internal changes are required to enable organisations to be ever more successful in partnering. The three foundations for successful partnerships that bring mutual benefits to the parties involved are a bespoke strategy, creative deal making and re-configured capabilities. Companies that get this right will benefit from well-crafted partnerships as an extremely attractive alternative, or at least complement, to organic growth with focused M&A.