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Biotech-in-a-box™
How to ‘ACE’ geographical expansion in Europe

A three-step game plan for biotech

Contents

Introduction

2018 was a record-breaking year for the global biotechnology sector. For the first time, biotech Initial Public Offerings (IPOs) raised over $8 billion (for over 70 biotech companies in total)[1] in global stock markets, as the industry enjoyed a long and active financing window. Biotech companies are now at the forefront of the search for new cures (including next generation treatments such as gene and cell therapies) and hope for patients: they are responsible for around 70% of the clinical trials globally[2] (of which 42% are in partnership with another company).

In the US, the FDA approved an unprecedented 59 novel drugs last year, breaking its record of 53 drugs in 1996, and nearly half were developed by biotech companies[3]. In the Far East, China has also seen unmatched growth of the industry, with many innovative companies raising capital and starting to expand internationally. There were 100 Abbreviated New Drug Applications from Chinese companies submitted to the FDA in 2018: a remarkable six-fold increase from the 15 submitted in 2015[4].

Typically, biotech companies tend to initially focus their limited resources on the US market (being the largest and most lucrative) or their market of origin (such as China or Japan). As interest in the product grows, they may have their eye on the next stepping stone, which is usually to raise capital and expand into other geographies. A critical requirement for expanding globally is to capture opportunities in Europe, which accounts for over 20%[5] of the total global pharmaceutical market.

However, Europe is a complex market: there are 31 countries within the European Union (EU)/European Economic Area requiring European Medicines Agency (EMA) approval, as well as other markets with their own regulatory authorities, such as Russia, Turkey and Switzerland. There are also distinct healthcare systems and reimbursement processes for each market. Many markets are facing increasing pressure from payers to contain costs, which has stretched the average length of time between European market authorisation to patient access from 233 days (2007-09) to 318 days (2014-16)[6]. Furthermore, recent changes in EU regulations (such as for in vitro diagnostic medical devices and other market uncertainties (including Brexit) are making it increasingly difficult to forge ahead. Thriving in such an intricate environment means going beyond traditional thinking regarding geographical expansion.

Biotech is in the centre of innovation

Responsible for around **70%** of clinical trials

59 novel drugs approved by FDA in 2018

100 Abbreviated New Drug Applications from Chinese companies submitted to FDA in 2018

>300 next-generation therapies (such as gene and cell therapies) in late-stage pipeline

2018 was a record-breaking year for the global biotechnology sector. Biotech companies are now at the forefront in the search for new cures and hope for patients: they are responsible for around 70% of the clinical trials globally (of which 42% are in partnership with another company).

Figure 1. Complexity of the European landscape

UK

45.8 | 86% | 209

- Cost-effectiveness oriented market with high pressure on net price
- Historical Cancer Drugs Fund now serves as an interim funding opportunity
- A typical HQ location for international biotech before Brexit

Germany

54.7 | 88% | 119

- Largest market in Europe with high rate of reimbursement for innovative medical products
- Products enjoy a one-year 'free pricing' period after EMA approval, whilst negotiating a reimbursement price

Sweden

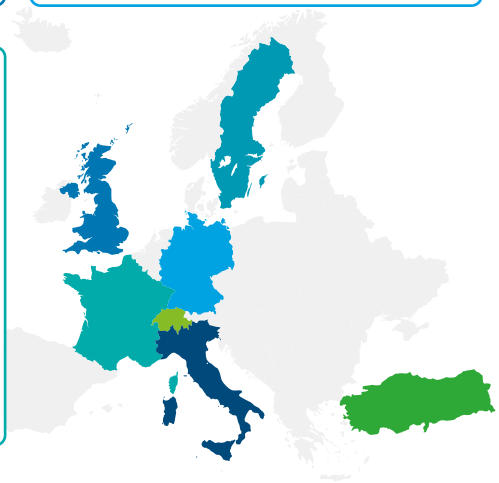
4.7 | 69% | 269

- Cost effectiveness-oriented market with moderate access to rare disease medicines
- Coverage is often fragmented across different regions within the country

France

36.7 | 60% | 498

- Traditionally an innovation-friendly market but the access environment is becoming more challenging
- Orphan drugs often enter via the funded early access programme (ATU) before EMA approval



Italy

32.4 | 79% | 402

- Large market in Europe with a fragmented health system and lengthy pricing/access process
- Recently introduced a new innovation algorithm and fund for innovative medicines and cancer drugs (EUR 1 billion)

Key

- Total expenditure on drugs ($bn)
- Rate of availability for innovative products
- Time to access (days)

Switzerland

6.6 | 74% | 171

- Small market with good coverage for innovative medicines
- Although a non-EEA/EU market, low tax and good talent base have made it a popular HQ destination after Brexit

Turkey

7.6 | 16% | 292

- Not under EMA regulation but has an innovation friendly importation programme for rare diseases
- Numerous orphan medicines gained early access with significant revenues in the past

Reference: OECD data, Decision Resource Group, Deloitte analysis

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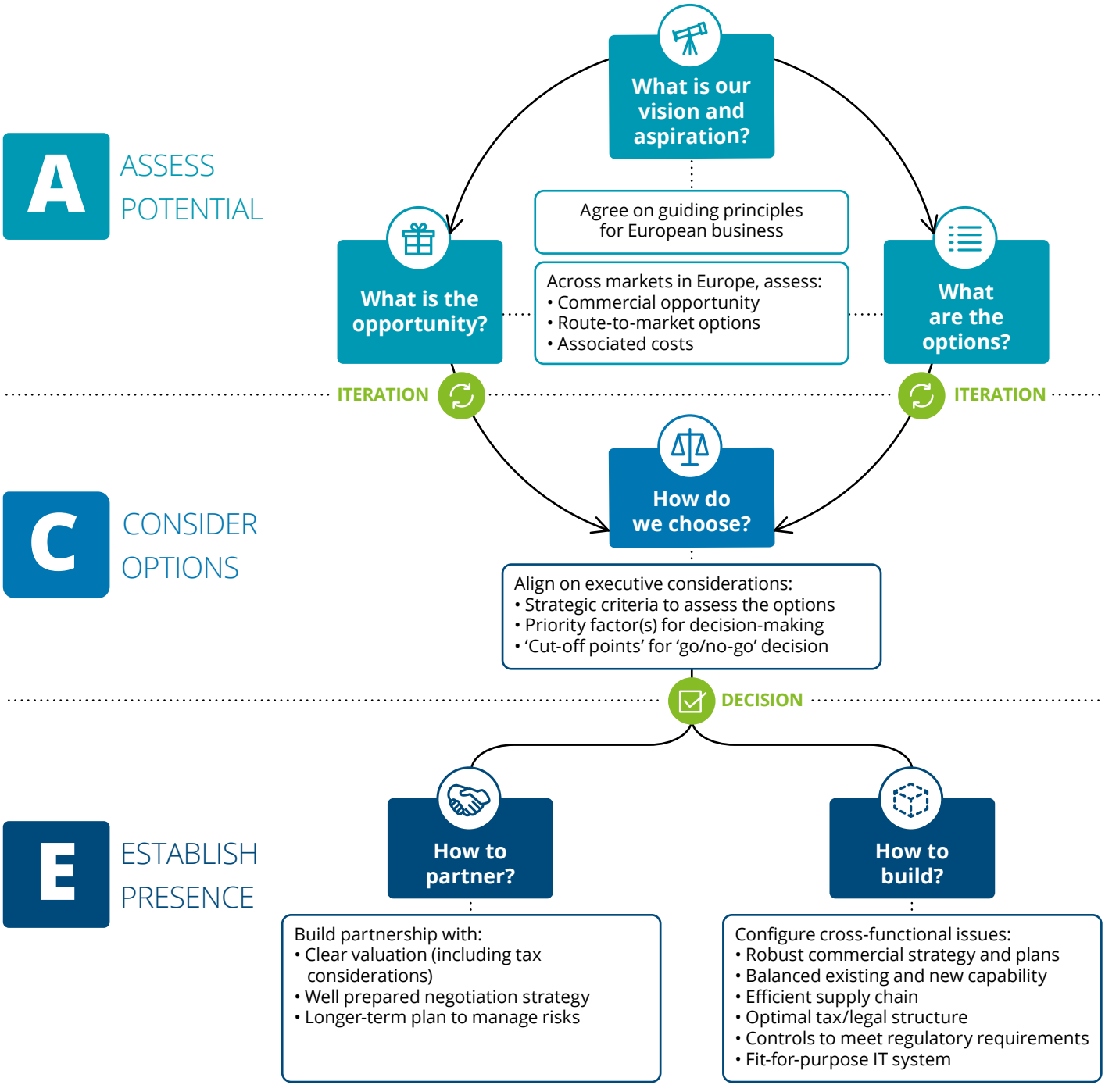
Small steps to a greater goal

Based on our experience helping biotech companies navigate geographical expansion, we have defined three steps to effectively assess market potential, select the most appropriate go-to-market options, and choose the best route to successfully establish presence in Europe. This ACE framework is outlined in Figure 2 and described overleaf.

Figure 2. Biotech expansion in Europe: a three-step ACE framework



A Assess potential

A critical first step before starting market exploration (and one that is often missed) is developing the vision and principles for the European business among senior executives. This involves aligning opinions on key strategy aspects and potential trade-offs such as company culture for different geographies, time to realise value, risk appetite and overall company brand.

Once there is internal agreement, it is time to envision a route through the complex European healthcare landscape to understand the 'size of the prize' across different markets. First, evaluate the market potential and confirm there are patient needs and commercial opportunity in the European markets. This includes developing a deep understanding of healthcare systems and assessing the unmet needs, patient journey, addressable market size and competitive landscape. Next, establish a justifiable price, which can vary by country. It is also important to consider the market access environment, understanding the complex requirements of regulatory approval and reimbursement processes.

Following this initial assessment, consider all potential go-to-market options, which vary according to the degree of company ownership:

- **Out-licensing:** Selling the European rights or licensing them for royalties
- **Commercial partnering:** Leveraging the capabilities of partners, rather than building from scratch. Different models exist, such as:
  - Outsourcing some commercial capabilities (such as engaging in co-promotion, or using a contract sales organisation [CSO] or distributor regionally or locally)
  - Setting up a joint venture (new local entity to share ownership, returns and risks)
  - Leveraging special patient-access programme (named/cohort patient programme)
- **Go-it-alone:** Building and controlling most commercial operations, with the option of outsourcing supporting capabilities, such as logistics and distribution.

When exploring options, it is useful to understand well-trodden paths taken by other companies, by reviewing historical case studies as well as exploring more niche or innovative ways more suited to the specific market needs of the product(s).

C Consider options

After assessing all possible go-to-market options, the next step is to start eliminating those less relevant for the product/portfolio and to the company vision. To create a shortlist of potential options, management needs to analyse each go-to-market option qualitatively and quantitatively, considering a set of strategic criteria, as listed in Figure 3. The best solution(s) will complement the previously established overall business vision and design principles for European expansion.

- **Overall costs of development** (including local clinical studies), **manufacturing, distribution, commercialisation** (including talent, supply chain, taxes, regulatory implications for potential operations)
- **Timeframe to realise the product/portfolio value**, including time to build commercial and technology capabilities, seek partnership options, negotiate deals
- Potential **profit share** (as affected by tax, regulations and partners)
- **Complexity in managing** a local business across global markets
- **Capacity and resource requirements** for corporate and regional offices
- **Risks** associated with launching in Europe, alone or with a partner.

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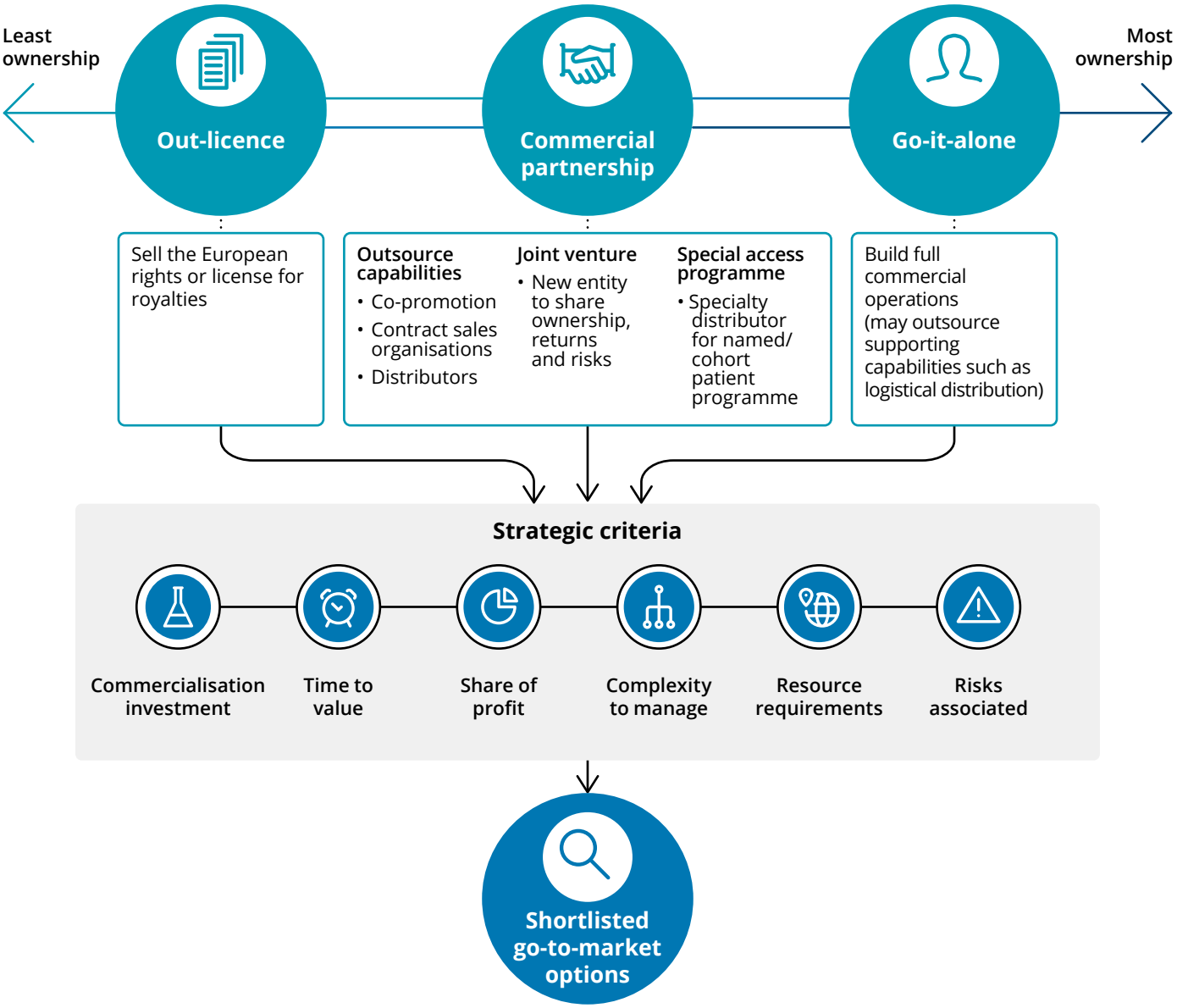
Figure 3. Go-to-market options and strategic selection criteria



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Identifying potential partners may be a challenging prospect, but there can be vast benefits brought by an appropriate partnership with a suitable risk-reward relationship. To determine the best partner to support European expansion, consider the following key questions:

- **Shared vision** – what is the long-term vision of the alliance?
- **Smart goals** – what are the immediate objectives of the partnership (such as growth and profit, investment return, customer feedback)?
- **Mutual benefit** – what are the financial and capabilities benefits of partnering?
- **Clearly defined roles** – what will the partners contribute?

Before making a decision on which go-to-market route to follow, it is important to understand what is required to launch products in Europe alone (i.e. without a partner), including the 'must-haves' for commercialisation in the European market (Figure 4), associated costs, required investment for business activities (such as running marketing campaigns) and hiring FTEs. In our experience, the typical investment required to build a European operation from scratch over the first few years ranges from €60-150 million; however, costs vary significantly depending on the type of products and design of the European business.

To support an efficient decision-making process, the team should align early on the key matrix for decision-making and scope of analysis. For example, would a NPV or time-to-cash recoup analysis be better suited for our business situation? What period should we use for evaluation? What pipeline products/ indications we should include in the modelling?

It is critical to note that determining different go-to-market options is an iterative process that should begin early, allowing sufficient time to make a measured decision. It might be necessary to revisit market potential and re-evaluate the go-to-market options while searching for and conversing with potential partners.

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Establish presence

The decision can now be executed for each market/ market segment in Europe. However, there are varying factors that could affect the expansion for a biotech, and it is necessary to consider how best to address them on the pursuit towards the chosen route to establish presence in Europe.

Partnership or licensing route

In structuring a partnership deal, it is important to keep in mind the guiding principles previously established; it is also essential to determine the valuation and potential tax implications of the partnership.

When licensing out a product, it is essential to understand the value of the assets and manage the due diligence process. For a more complex commercial partnering model, such as co-marketing, go the extra mile to make a plan to clearly define capabilities and allocation of various responsibilities among partners. This may sound easy, but it is critical to setting up the day-to-day management of the partnership and determining how to manage risks, especially potential exit clauses. Be aware that visions may not always align – one company's most valuable asset may not be the first priority for its commercial partner.

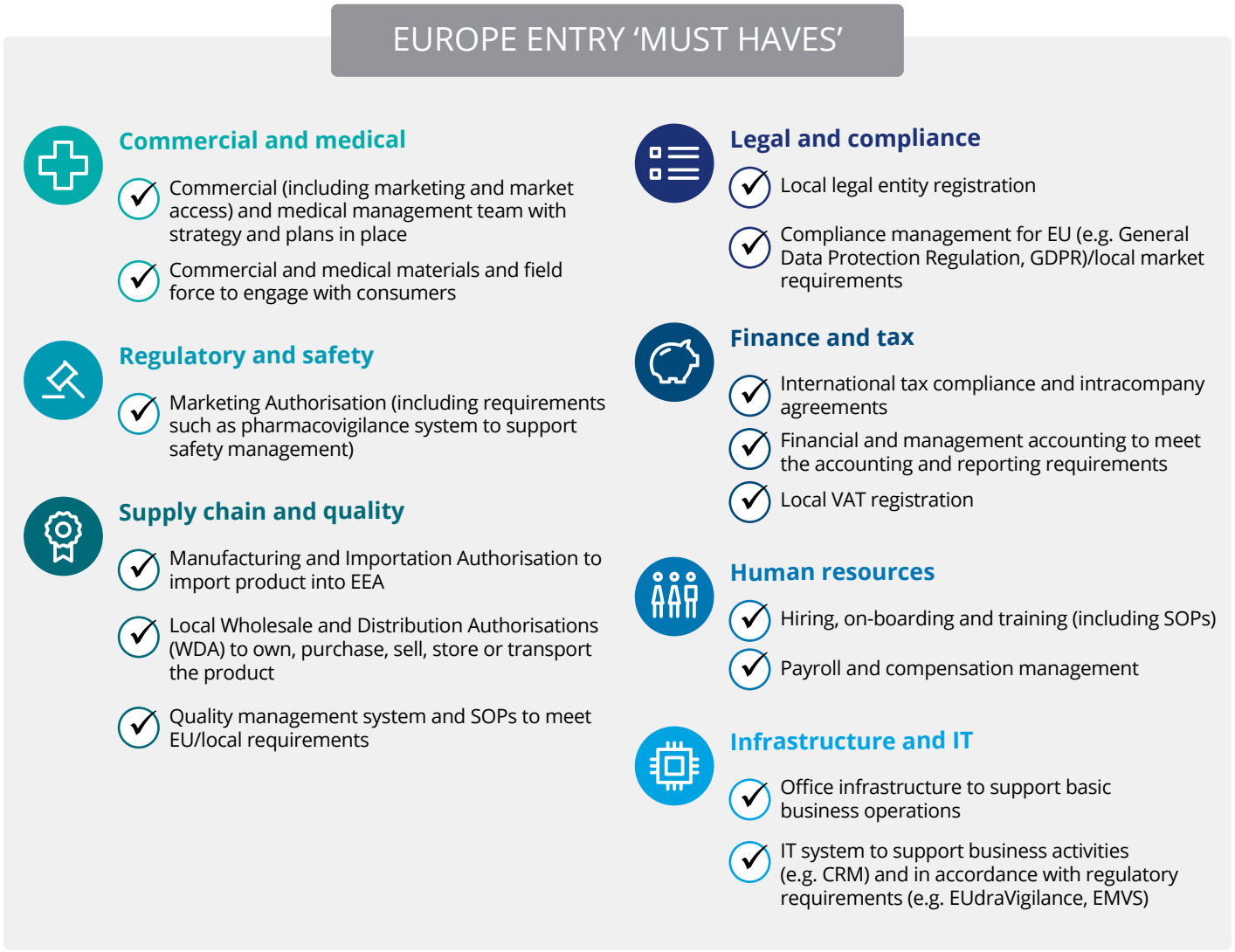
Go-it-alone route

To successfully go-it-alone, a biotech company needs a dedicated team responsible for managing the implementation, to prevent disruption to existing business.

It is also important to conduct initial detailed planning to identify capabilities that are needed, those that already exist and can be leveraged for the geo-expansion in Europe, as well as the commercial strategy and launch. Key questions to ask include: What are the target markets? What is the launch sequence? How will implementation be supported (consider, for example, patient and funding flows, and internal working structure)?

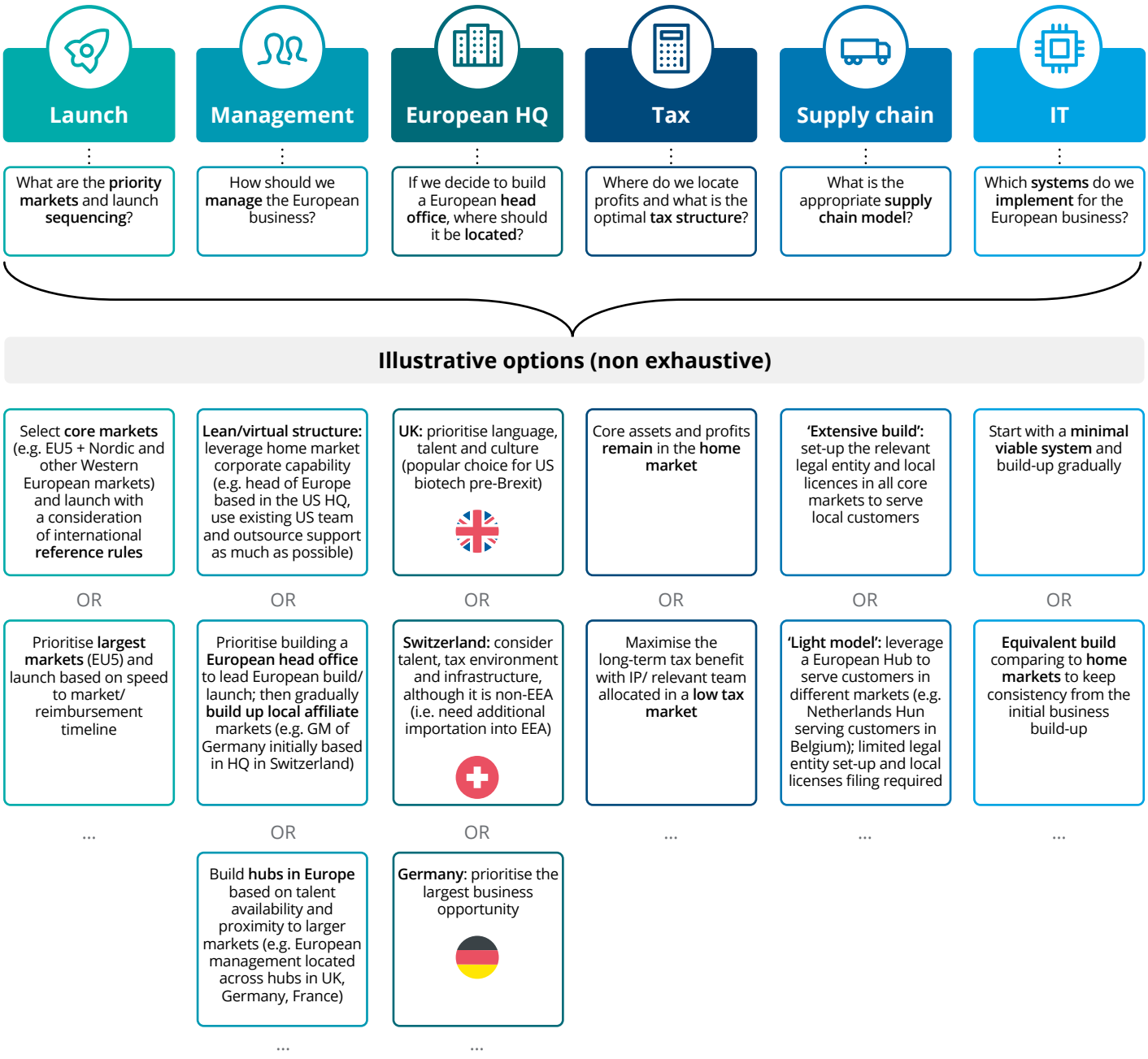
Furthermore, it is critical to consider all the business' organisational functions and determine what contribution will be required from each. Figure 4 provides a simplified checklist of the key decisions required for successful 'build-up', along with some examples of what other companies in the industry have done in the past.

Figure 4. Non-exhaustive list of Europe entry 'must-haves' to ensure launch readiness from the EMA approval date



...it is critical to consider all the business' organisational functions and determine what contribution will be required from each.

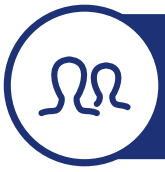
Figure 5. Design a European biotech business: non-exhaustive cross-functional aspects to consider and illustrative options for go-it-alone



The team responsible for managing the implementation will have to ensure that all cross-functional aspects are considered. Organising all business efforts and setting clear timelines for key decisions well in advance will help avoid delays in commercialisation after EMA approval. Based on previous experience, the executives of biotech should consider a set of key questions in order to ensure a successful build-up:

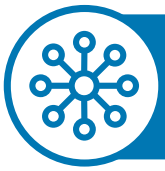
Organising all business efforts and setting clear timelines for key decisions well in advance will help avoid delays in commercialisation after EMA approval.

Timing of build-up
- How long do we need to complete certain activities for building up the European operation and launch the product?
- By when do decisions need to be made to ensure there are no delays in European launch?



Resourcing plan
- How do we plan to complete the key actions?
- Do we leverage our existing team, wait for the EU team on-board or outsource to 3rd parties?

Cross-functional implications
- Have we considered how the decisions are inter-linked? For example, the decisions on priority markets, management model, HQ location, tax and supply chain model cannot be made in isolation.



Interdependency
- Have we considered the interdependencies among different activities? For example, you need to have a legal entity to hire the first European employee, but you need to decide on the corporate holding and tax structure before setting up the local legal entity.

Risk plan
- What should we do to de-risk a prolonged partnership negotiation?
- What are some of the 'no regrets' activities that should be done?

Conclusion

The road to success is supported by a deep understanding of European markets and a clear vision of the future: know what you are getting into and how to be prepared. But this should not be an exercise done in isolation; it is not enough for a select few to make assessments and inform quick decisions. As we described in the three-step ACE-framework, gather early cross-functional input on the available options – not only assessing commercial opportunities, but bringing together the various views from strategy, tax/finance, regulatory and R&D. Getting European launch right will be invaluable to the business: tapping into additional commercial opportunity, building new capabilities/teams and providing new hope for a larger number of patients. Forward-thinking behaviour will stand the business in good stead to capture the opportunity in Europe… and beyond.

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Endnotes

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