ESCAPING THE CHRONIC MICROCAP TRAP:
HOW LAUNCHING ALONE IS THE ONLY OPTION FOR GROWTH

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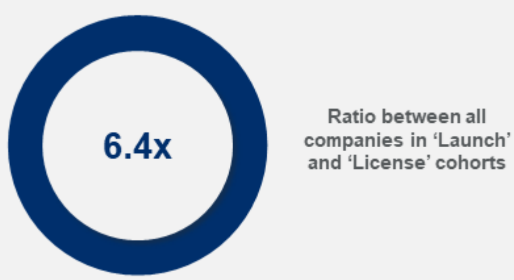
Pre-commercial pharma companies face a common choice: Commercialize products independently, or collaborate with another pharmaceutical company as a commercialization partner. As the C-suite leaders in these organizations wrestle with the pros and cons of this choice, one factor they must consider is the impact their decision will have on their current and future market valuation. **The question is this: How much of a premium does the market put on a company that chooses to launch and commercialize its product independently?**

Figure 1: Ratio of average market capitalization between a cohort[1] of 'Launch' and 'License' public companies



[1] The 'Launch' cohort consists of 33 companies that commercialized their own product and the 'License' cohort has 17 that partnered with larger biopharma companies

SOURCE: EVERSANA Analysis

That premium can be substantial. The average market capitalization of a cohort of public companies that developed paths to launch their own products (including successful and sub-optimal launches) was over six times greater than a cohort of public companies who consistently license with other pharma companies to launch their products.

A company that successfully launches and commercializes its product independently generates revenue and earnings that stay within the company's walls, as opposed to taking only a small percentage of royalty revenue from licensing its asset. The cash the company generates from independent commercialization can fuel further clinical development programs and acquisitions, setting the stage for a completely different growth path. A company that successfully commercializes commands significantly higher market capitalization estimates compared to companies that choose to license their products.

The universe of nanocap and microcap pharma companies continues to grow, creating a backlog of companies trying to chart the course away from being a permanent microcap company and toward becoming a mid-cap or even large-cap company. Clearly, the primary means of reaching that goal is successfully launching and commercializing products independently. But the hurdles surrounding a successful independent launch are not simple to overcome.

CHALLENGE 1:

LAUNCHING INDEPENDENTLY CAN BE TOO EXPENSIVE AND COMPLEX TO EXECUTE

Though an independent launch may be the "obvious" choice based on market cap impact, the harsh reality is that few companies are able to execute a launch on their own. To launch an asset with even a modest market opportunity can be a costly endeavor. **On average, funding the pre-launch and five-year post-launch activities for a product can range from $200M–$450M.**

In addition to significant funding requirements, launching a pharmaceutical product requires significant and highly technical subject-matter expertise from a finite pool of talent resources who are in high demand in the pharma and biotechnology industries.

Faced with these challenges, many companies are unable to justify the potential investment based on the risk and limited funding channels at their disposal. With this realization, their launch option quickly skews toward licensing to another pharma company.

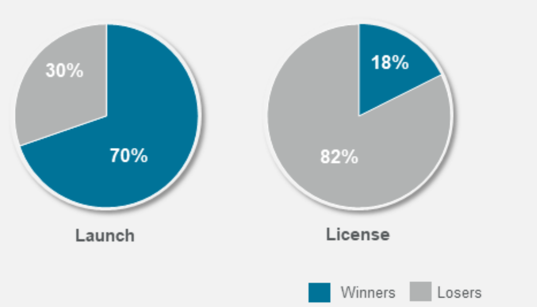
> **“A launch winner yields 12 times the growth vs. a license winner yielding just double growth.”**

CHALLENGE 2:

REALIZING SUB-OPTIMAL VALUE CREATES A MICROCAP TRAP

Once a company reaches the conclusion that the odds of successfully launching on its own are low, the company naturally turns toward licensing, partnership and co-commercialization options. The upside to these options is the ability to get the product to patients, address unmet needs and realize the commercial value of the product. Unfortunately, the majority of the commercial value does not flow back to the company with the asset. Approximately 80% of the commercial value goes to the company with the commercial infrastructure.

Figure 5: Proportion of ‘winners’ in the Launch and License cohorts



SOURCE: EVERSANA Analysis

Nanocap and microcap companies and their shareholders have been conditioned to believe and accept that this result is as good as it gets in terms of a successful outcome. The companies that end up forming partnerships may get some increase in valuation, but that value is far below the valuation of companies that have been able to commercialize their assets and retain the majority of the commercial value.

After tracking the success of two company cohorts, companies that launched vs. companies that licensed, our study showed companies who are able to launch their own products have a 70% chance of dramatically increasing their market capitalization and escaping the chronic microcap trap.

> **“Companies that launched were ~4 times more likely to become a winner (i.e., escape) vs. companies that licensed.”**

LAUNCHING IS NOT THE EASY WAY OUT OF THE MICROCAP TRAP

Unfortunately, attempts to help nanocap and microcap companies commercialize their products independently have failed due to a number of factors, including:

- Lack of comprehensive breadth of strategic and operational capabilities.
- Limited technology and supply chain infrastructure.
- Poor financial resources to handle funding requirements and the biopharma product’s risk profile.
- Emphasis on certain aspects of commercializing a biopharma product and “just good enough” capabilities.
- Misaligned internal incentives that result in challenging coordination and collaboration.

These launch challenges should be acknowledged head-on and early in order to develop a successful commercialization capability for nanocap and microcap companies. At EVERSANA, we know that seamless coordination and future cross-functional collaboration must be the life sciences commercialization standard rather than the exception.