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MOFO BIOMETER™

A quarterly deal report covering the biotechnology industry

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Q2 BIOMETER SHOWS STRONG VALUE IN DRUG DISCOVERY PLATFORMS

By Stephen B. Thau, Aaron J. Schohn

The average BioMeter value in the second quarter of 2014 jumped significantly to $143.4 million, an increase from the $15.9 million value in the first quarter. This included two blockbuster deals, the $1 billion up front paid by Merck to Bayer for rights to the family of soluble guanylate cyclase modulators, including the approved pulmonary arterial hypertension drug, Adempas, and the $710 million up-front payment from Celgene to Nogra for the Phase 2 Crohn's disease drug GED-0301. Without these two transactions, the BioMeter value in the second quarter would have still been a healthy $41.7 million.

While the Bayer/Merck and Celgene/Nogra transactions are headline-worthy, the real story for the quarter was a continued strong increase in BioMeter value for pre-clinical discovery platforms. We have commented before that the BioMeter value for pre-clinical and discovery stage transactions has remained stable throughout our analysis. This quarter continued the increase we observed last quarter to an average BioMeter value of $33.4 million across five transactions, led by the $80 million paid up front by Pfizer for the rights to the chimeric antigen receptor t-cell immunotherapy platform from Cellectis (the $80 million excludes an additional equity investment from Pfizer), and the $50 million paid up front by Bristol-Myers Squibb for the rights to CytomX's Probody therapeutics against four oncology targets. As large pharma are decreasing their own R&D spending, they are investing heavily in promising new areas to provide long-term pipeline replenishment. This bodes well for the continued funding of novel therapeutics approaches.

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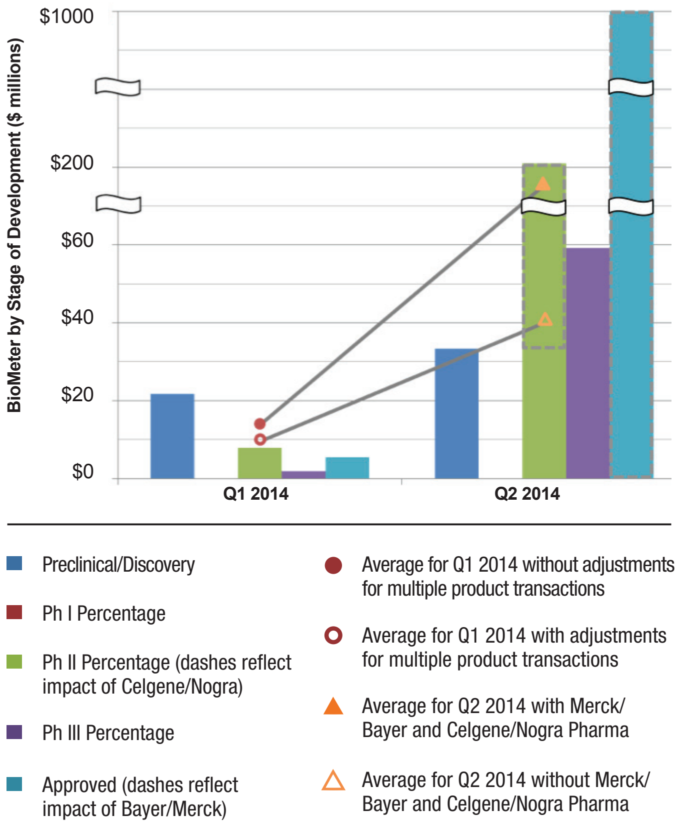
TABLE 1A: BIOMETER VALUES BY STAGE OF DEVELOPMENT AND AVERAGE FOR Q1 AND Q2 OF 2014



Also notable, the second quarter of 2014 was the second quarter in a row without a single Phase 1 transaction reporting an up-front payment. This suggests that business development transactions are either happening early, before clinical trials, or after the proof of concept validation that comes with Phase 2 data.

Phase 2 and Phase 3 BioMeter values had a nice bounceback in the second quarter compared to the unusually low values in the first, with Phase 2 transactions reporting a BioMeter value of $33.1 million (excluding the Celgene/Nogra deal, or $202.3 million including it), and Phase 3 transactions reporting a BioMeter value of $59.2 million.

Overall, the number of transactions reporting up-front payments declined compared to the first quarter of 2014 and also compared to the similar quarter last year. We continue to believe that access to public capital markets, coupled with industry consolidation, is contributing to the decline in the number of licensing and collaboration deals.

TABLE 1B: BIOMETER VALUES BY STAGE OF DEVELOPMENT AND AVERAGE FOR Q2 2013 AND Q2 2014

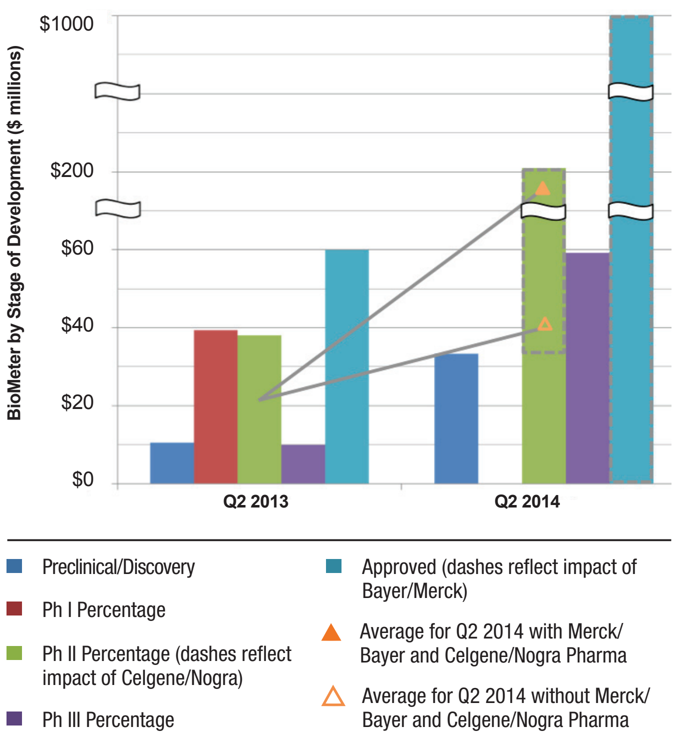


TABLE 2A: NUMBER AND PERCENTAGE OF COLLABORATION AGREEMENT BY STAGE OF DEVELOPMENT FOR Q1 AND Q2 2014

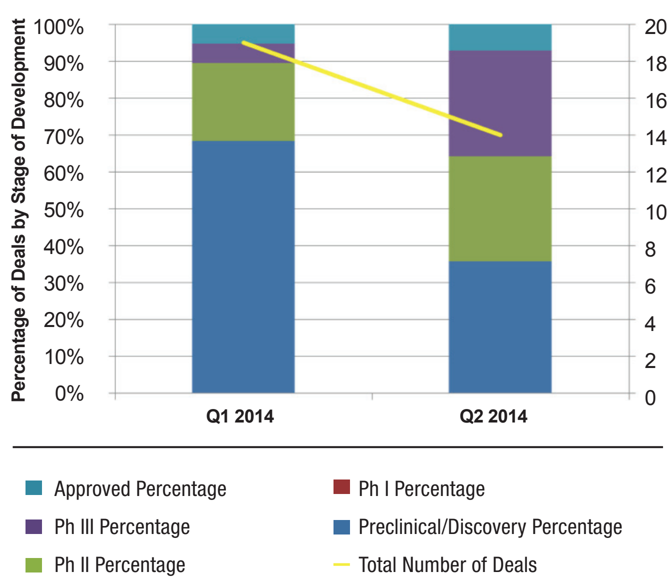


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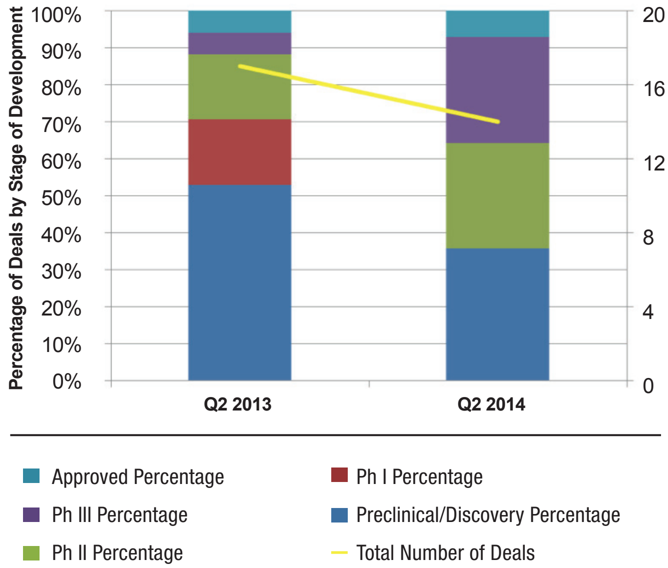
TABLE 2B: NUMBER AND PERCENTAGE OF COLLABORATION AGREEMENT BY STAGE OF DEVELOPMENT FOR Q2 2013 AND Q2 2014



About MoFo BioMeter

The MoFo BioMeter is an index that measures the health of the biotechnology industry. The BioMeter averages up-front payments in licensing, collaboration, and development agreements between biotechnology companies (broadly defined) and companies that pay for commercialization rights. We focus on up-front payments because they are the most concrete representation of the value of a development-stage asset, and also because in an era of constricted venture funding for unapproved therapeutics, up-front payments from collaboration agreements have become an increasingly necessary source of capital for companies to sustain their development efforts. The BioMeter also allows us to measure changes in the industry, or by sector, over time.

IN CASE YOU MISSED IT…

EUROPE'S INCUBATOR CENTRAL

Berlin is becoming the Continent's top start-up destination

Jörg Meissner, a partner in Morrison & Foerster's new Berlin office, had an eye-opening experience while visiting Silicon Valley to check out the start-up culture there.

"In Berlin, the streets and coffee shops buzz with people on their iPads pitching ideas, with start-up events happening practically every night," says Meissner, a corporate and finance lawyer who represents both founders and investors. "The scene is visible and active; it is the real deal."

Investment in young companies in Berlin is one-tenth that of Silicon Valley, Meissner notes. Yet the action is lively. Incubators are popping up throughout the sprawling city.

"Berlin is overtaking London and Tel Aviv as Europe's top start-up destination," he says. "Why? For the same reason that attracted artists here almost a decade ago: plentiful and affordable living and work space. Munich, Hamburg, and Cologne have some start-up activity, but at double the living costs, people choose Berlin."

The Berlin story began with the three Samwer brothers, who ignited the scene in 1999 by funding a German version of eBay and then selling it to eBay 100 days later for €38 million.

"Their model was to clone U.S. successes," says Meissner of the Samwers, whose empire now includes global incubator Rocket Internet; European Founders, their fund for early- and later-stage Internet businesses; and Global Founders Capital, targeting start-ups worldwide.

Players more focused on innovation have since come into prominence, but Berlin has yet to hit full stride. "For all the activity, there are simply fewer investors here, and absent a huge IPO story, U.S. interest remains lukewarm," Meissner explains. "Mindful of past bubbles, investors can be skeptical of new ideas, and the government has yet to fully get behind supporting young companies."

There are encouraging signs, however. "The government created a fund that pays business angels back 20 percent if they hold their investment for three years, subject to certain criteria," says Meissner. "Sequoia Capital recently put €18 million into a start-up here, and the €88 million round attracted by online food delivery service Delivery Hero was Berlin's largest ever. So hopes are high that Silicon Valley is coming."

There are also a growing number of corporate accelerators, Microsoft and Coca-Cola among them, providing founders with funding, mentoring, and networking support. "In 2013, leading German media company Axel Springer partnered with Plug and Play Tech Center—a leading Silicon Valley startup investor and accelerator—to create Axel Springer Plug and Play," says Meissner who, with his team, advises Axel Springer Plug and Play on its deals. "That is the kind of direct bridge that promises well for the future."

This article appeared in the Spring/Summer 2014 issue of *MoFo Tech* magazine. To receive more information like this, please click here for your free subscription to *MoFo Tech*.