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**1. How Private Equity Funds Can Boost the Value of Your Medical Device or Biopharma Company**

By Dennis Burns, TCG Principal

Private equity firms and the funds they manage are an important new financing source for medical product companies. They are, however, different operators from traditional investors and corporate acquisition groups. If you want to tap into this financing source, you need to understand how their deal parameters and financial requirements can significantly impact your product plans.

Private equity firms - some as large as \$5 billion - are acquiring medical device and specialty pharmaceutical companies at a rapid pace. HealthpointCapital, LLC is a prime example. In 2004 the \$600 million equity firm founded Nexa Orthopedics, Inc. with the goal of making it the preeminent company in extremities surgery.

Over the next two years, HealthpointCapital:

- Acquired five firms with specialty surgical items or products that were nearing FDA approval.
- Negotiated a private label deal with OsteoBiologics, Inc.
- Accelerated product launches through 510(k) filings.
- Entered a distribution agreement with

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<http://www.InTouchLifeSciences.com>

<http://www.t-c-group.com>

<http://www.accessrxgroup.com>

**Forward to a Colleague**

Smith & Nephew for products used in foot surgery.

- Leveraged their sales coverage of orthopedic surgeons and podiatrists.

Nexa's value shot up, and HealthpointCapital sold the company last month generating a 75 percent internal rate of return on its investment. (For more information, see <http://www.nexaortho.com/aboutus/news.php>).

What are the key lessons here? Private equity funds expect capital returns faster than more traditional funding sources. The tighter timeframe makes meeting shorter-term regulatory and sales milestones more critical. It also calls for better organizational efficiency through clustering firms in a similar therapeutic area.

Have you streamlined operations and maximized the value of your company to make it more attractive to private equity firms? Look at your product line to find new indications that could leverage your sales force coverage. Could you acquire or negotiate a distribution deal for any single product companies in the same therapeutic area? For example, one of TCG's medical device clients added a surgical membrane and a specialty mesh to capitalize on the synergy of selling those products along with its bone regeneration products to dental surgeons.

Can you find new delivery systems or 510k or 505(b)2 line extensions to launch in the next six months? What about a partnership or licensing deal with a major player? How would such a transaction impact your credibility and company value?

Do you know how your company would stack up in the eyes of a private equity firm? Conduct a strategic review of your product line or get experts to help you analyze your appeal and maximize your assets, so you can take advantage of the lucrative private equity market.

*If you would like to know more about how private equity funds could increase the value of your company, send an email to [dburns@tcgbiopharma.com](mailto:dburns@tcgbiopharma.com).*

## **2. Big Pharma is Broken; Long Live Specialty Pharma**

**By Robert C. Keefer, TCG-BioPharma Managing Partner**

The headlines tell the story of Big Pharma's recent troubles...

*"Merck Loses Protection For Patent On Zocor"*  
(New York Times)

*"Another generic rises against Glaxo"*  
(Triangle Business Journal)

*"Pfizer to lay off 10,000 workers, close plants"*  
(MSNBC)

. . . while they paint a different picture for specialty pharma:

*"Cephalon Reports Record Sales and Earnings for 2006"*

*(Company press release)*

*"No Earnings Face-Lift Needed For Allergan"*

*(The Motley Fool)*

*"FDA allows ZymoGenetics to skip trial of spray drug, saving time and money"*

*(Bloomberg News)*

There are good reasons why specialty pharma - companies that focus on one therapeutic area with sales and marketing directed to a narrowly defined physician base - has experienced such growth and success in the last 10 years: Predictable revenue stream much earlier than start-up companies; quicker, sustainable profits; no huge sales force to feed; and, as profits grow, the option to retain ownership or sellout to a larger company. Well-managed specialty pharma companies are also appealing to private equity firms.

What are specialty pharmaceutical companies doing right? What strategies could be adapted to your business? Here are a few ideas:

1. Align teams to focus on one therapeutic area each: In general, functions throughout specialty-focused companies can be more cost-efficient. The sales force has a smaller target audience to detail. Marketing, sales, medical affairs and regulatory teams can be more knowledgeable, resulting in a reputation as the "go-to" company in your specialty areas.
2. Tweak products: Because concentrating in one area leads to efficiencies the pharmaceutical giants can't match, small product improvements that bring just modest sales gains can translate into healthy profits. For example, one strategy is to take an established drug and improve the delivery method. No expensive and risky clinical trials are required, costs are lower and the product reaches market faster.
3. Rejuvenate languishing products: An example tells the story here. When Pepcid went over the counter, Merck & Co., Inc. sold its OTC rights to Johnson & Johnson but maintained the license for the IV formulation used in hospitals. By big pharma standards, the product has a small target audience, so it languished in Merck's portfolio. Enter Salix Pharmaceuticals, Inc., a specialty pharma focused on gastrointestinal diseases. The IV formulation of Pepcid fell right in Salix's sweet spot, because the company already had the knowledge and customer base and could promote it without adding to the sales force.
4. Research your customer base: In addition to

conducting a broad search for the right products to acquire, smart specialty pharma companies also understand the prescribing patterns of their target physicians to ensure that any new products will resonate with them. When they've done their homework, they know that the new products will also boost sales of the "old" products by giving the sales reps something new to talk about. When was the last time you did probing interviews of your best prescribers?

*If you would like to know more about how you could apply the best practices of specialty pharma in your business, send an email to [rkeefe@tcgbiopharma.com](mailto:rkeefe@tcgbiopharma.com).*

### **About the Authors**

Robert Keefer is the Managing Director of TCG-BioPharma. He currently directs assignments to out-license a reformulated gastroparesis drug and a new male sexual health product.

Dennis Burns is a TCG Principal who has market development and product commercialization experience with large companies (Johnson & Johnson/Ortho Biotech) and smaller firms (Closure Medical, Westaim, Curasan).

### **News and Events**

#### Venture Capital and Private Equity Investing in Medical Device and Healthcare Technologies

*Minneapolis, MN. May 16-17, 2007*

<http://www.ibfconferences.com/ibf/viewdetails.asp?lstconfname=192>

#### Fifth Annual Pharmaceutical Marketing and Sales Summit

*Princeton, NJ. April 16-17, 2007*

[http://www.srinstitute.com/conf\\_page.cfm?instance\\_id=27&web\\_id=928&pid=535](http://www.srinstitute.com/conf_page.cfm?instance_id=27&web_id=928&pid=535)

#### Sixth Annual BIO-Windhover Partnering Conference

*Washington, DC. April 9-11, 2007*

<http://www.biowindhover.com>

#### Fourteen Annual EuroBiotech Forum

*Paris, France. June 26-28, 2007*

<http://www.eurobiotechforum.com>

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