„Looking For the Perfect Fit“

Fallbeispiele

Symposium Life Sciences am Kapitalmarkt
M&A und Lizensierung

Dr. Ulrich Schriek
Vice President Corporate Business Development
What We Are and What We Want
Executing on our M&A Strategy
The M&A Process
Cope with Critical Situations
Case Studies
(not included in this PDF)
Agenda

- What We Are and What We Want
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1. Standardization of Sample & Assay Technologies

Addressing the complexity of biological samples

<table>
<thead>
<tr>
<th>Sample Preparation</th>
<th>Assay Technologies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nucleic Acid purification</td>
<td>PAXgene Sample Collection</td>
</tr>
<tr>
<td>Diagnostic PCR Assays</td>
<td>LT &amp; MT Automated solutions</td>
</tr>
<tr>
<td>Solutions for Epigenetics</td>
<td>RT - PCR</td>
</tr>
<tr>
<td>Whole Genome Amplification</td>
<td>HT Automated solutions</td>
</tr>
<tr>
<td>Genome-Wide Quantitect Assays</td>
<td>RNAi</td>
</tr>
<tr>
<td>Recombinant Protein Purification</td>
<td>Multi-plex xMAP assays</td>
</tr>
<tr>
<td>Protein Fractionation</td>
<td>Protein crystallization</td>
</tr>
<tr>
<td>Sample prep Mass spec</td>
<td></td>
</tr>
</tbody>
</table>

- 5 - Sample & Assay Technologies
2. Dissemination Into New Markets

- Academia: Life Science Research
- Pharma: Research & Development
- Applied Testing
- Molecular Diagnostics

Sample & Assay Technologies Product and Technology Continuum
3. Expansion of Geographical Reach Out

QIAGEN is currently direct in 27 countries

Expansion via M&A

Accelerated Globalization Program: Eastern Europe, India, Latin America, Mid-East
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Strategic Options

1. Develop
2. Partner
3. Acquire

Capabilities

Products

Channel
**Deal Preference at QIAGEN (03/97 – 05/08)**

“Deal”-structures in the biotech industry

<table>
<thead>
<tr>
<th>Type of deals</th>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity deals</td>
<td>28</td>
<td>M&amp;A - Single entity formed by combination of 2 companies</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Joint venture - One set of shareholders</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Licensing deals - Non-equity deals</td>
</tr>
<tr>
<td></td>
<td>187</td>
<td>Straight licensing - Two or more companies set up a third jointly owned</td>
</tr>
<tr>
<td></td>
<td></td>
<td>organization by asset/equity contributions</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>Co-promotion - Two companies jointly perform research or one company pay</td>
</tr>
<tr>
<td></td>
<td></td>
<td>another to perform it</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Co-marketing - Marketing or other commercial rights are handed from one</td>
</tr>
<tr>
<td></td>
<td></td>
<td>company to another</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>Co-development - Two or more companies agree to promote a product in the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>same territory but under a single trade name</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Co-marketing - Two or more companies agree to promote a product in the same</td>
</tr>
<tr>
<td></td>
<td></td>
<td>territory but under a different trade name</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>Product swaps - Exchange of product rights between companies</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Product acquisitions - One party buys all rights to a product or a particular price</td>
</tr>
</tbody>
</table>

- The former owner gives up all commercial rights including patent rights.
QIAGEN’s M&A Strategy
Executing on strategy

Sample & Assay Technologies
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Value Drivers of an Acquisition

Corporate Objective

Valuation Components

Value Drivers

Management Decisions

Creating Shareholder Value

Intangible Driven Earnings
Operating Cash Flow
Discount Rate
Debt

Intellectual Property
Gross Profit Margin

Sales Growth
Operating Profit Margin
Working Capital Investment
Cost of Capital

Operating
Investment
Financing
Factors to Influence an Acquisition

Soft factors are also essential …

**Factors**

- Management
- Market
- Science & Technology
- company/product stage

…to define the risk profile of a company
Valuation Is Not Enough…

- Historical costs are not representative => not sufficient for future prospects
- Several methods can be useful to determine the value
- Valuation helps to check deal-terms
- Risk and potential growth have to be considered as main components
- Value ≠ Price

How to Bridge the Gap if Buyer and Seller Come to Different Valuations?
Success Factors
Preparation and set up for an acquisition

Internal Champion or „Customer“ for each project with a clear motivation
- Range from a „must have“ to a „nice to have“
- Self reliant about your own „Degree of Freedom“

Interdisciplinary Team (“down to earth”) to cover all relevant departments
- To address „the other’s issues“
- Consistent from Due Diligence into Post Merger Integration
- Regular negotiation trainings under “extreme situations”

Installation of a „Helmholtz Resonator“:
- A deal is only a good deal, if everybody sees it as a good deal
- = Managing expectations

Cultivated Negotiation style
- Take out „egos“
- Keep a cooperative atmosphere
- Avoid dead end roads
Success Factors
QIAGEN’s cross functional deal team headed by Business Development

Cross functional deal team

Pre-Selection → Initial Evaluation → Due Diligence → Financial Model → Negotiation

- Business Development
- Sales
- Finance
- Patent
- Operations
- R&D
- Legal
- PMI
Success Factors
Decide on dealmakers vs. realizers

Deal Maker

„The Deal is the Goal“

Deal maker

- Involves small number of people
- Gives out less information (tactics)
- Gives deadlines
- Mentions Problems late or not at all

Realizer

„The implementation of the Deal is the Goal“

Realizer

- Involves all people necessary for the goal
- Open with dissemination of information
- Negotiates milestones and deadlines
- Addresses problems early
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Bridging the „Value-Gap“
Closing the gap by reducing the scope

„ZOPA“ = Zone Of Potential Agreement

$30 $40 $50 $60

„we“ „they“

GAP - Zone

- What do we really need from this deal
- Definition of the „Zone“ between ideal and minimal goal of both sides
  - Transition from M&A to licensing?
  - Restrictions of rights concerning:
    - Field of use – research, diagnostic, therapeutic
    - Selected territories
    - Other limitations e.g. degree of exclusivity,..
Deal Components for Bridging the „Value-Gap“

Net Present Value

Deal Components

- Upfront Payment
  - Cash
- Sales Milestones
- R&D Milestones
- QIAGEN Shares
- Escrow
- Total Payment
Bridging the „Value-Gap“
Sharing the risk of a higher price (I)

- Payments
  - Upfront and deferred payments out of DCF model plus „premium value“
  - Consideration in cash or shares
  - Absorbing partner’s cost (e.g. patenting process)
  - Employment or consultancy agreement with owners post deal
  - Stock options

- Equity position in Partner-, Target- or NewCo
  - <20% at-cost consolidation
  - >20% at-equity consolidation
  - >50% full consolidation

- Milestones or/and Escrows
  - Revenue achievements (cumulated over period, 12months threshold…)
  - Catch up milestones
  - Product launches
  - R&D achievements
  - IP events
    - Freedom to Operate event
    - Patent grant date
  - Regulatory event

Partner Will Always Argue on his Ability to Influence Milestones Post Deal
Bridging the „Value-Gap“
Sharing the risk of a higher price (II)

- Royalties
  - Flat, increasing or decreasing royalties from net sales
  - Different Royalty Rates for Research and Diagnostics Markets
  - Purchase of royalty stream

- R&D funding
  - Paying for ongoing R&D services post deal

- Pricing
  - If partner keeps production of raw or semi finished material

- Mix out of all

- Walk away and look out for alternatives
## Post Acquisition Report

**Project V.**

### Actual vs Business Plan Variance

<table>
<thead>
<tr>
<th>Category</th>
<th>Timeframe</th>
<th>Plan</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenues</strong></td>
<td>0</td>
<td>22.508</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Cost of Sales</strong></td>
<td>0</td>
<td>8.253</td>
<td></td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>0</td>
<td>14.255</td>
<td>63%</td>
</tr>
<tr>
<td><strong>R&amp;D</strong></td>
<td>0</td>
<td>2.578</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Sales &amp; Marketing</strong></td>
<td>0</td>
<td>4.261</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Administration</strong></td>
<td>0</td>
<td>905</td>
<td>4%</td>
</tr>
<tr>
<td><strong>In Process R&amp;D</strong></td>
<td>0</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Acquisition related costs/Restructuring</strong></td>
<td>0</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Purchased intangible amortization</strong></td>
<td>0</td>
<td>1.500</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>0</td>
<td>9.244</td>
<td>41%</td>
</tr>
<tr>
<td><strong>Total Operating Expenses adjusted</strong></td>
<td>0</td>
<td>7.744</td>
<td>34%</td>
</tr>
<tr>
<td><strong>Operation Income</strong></td>
<td>0</td>
<td>5.011</td>
<td></td>
</tr>
<tr>
<td><strong>OI Margin</strong></td>
<td>0,00%</td>
<td>22,3%</td>
<td></td>
</tr>
<tr>
<td><strong>Operation Income adjusted</strong></td>
<td>0</td>
<td>6.511</td>
<td></td>
</tr>
<tr>
<td><strong>OI Margin adjusted</strong></td>
<td>0,00%</td>
<td>28,9%</td>
<td></td>
</tr>
</tbody>
</table>

The Responsibility for this Report Clearly Separates „Dealmakers“ from „Realizers“
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Thank you!