Anatomy of a Licensing Agreement

Why License?

Development of new pharmaceutical and biotech projects can be an extremely costly and time-consuming process. Many new drug candidates and platforms are the result of innovative work in academic institutions or small startups, however these institutions rarely have the funding available to carry a candidate through clinical trials and commercialization. This requirement creates the need for licensing partnerships with larger pharmaceutical companies, which can afford to take on the financial burden.

Types of Licensing Agreements

There are many different scenarios in which a company might want to out-license their developing technology, and a number of different deal structures to support these specific needs. One option is a merger or acquisition. In the case of a smaller target company and a larger pharmaceutical company partnering, this would likely be an acquisition. The smaller company would be wholly purchased by the larger company, giving access to the intellectual property as well as any existing physical assets. This can be a great exit strategy for those pursuing innovative research, and can encourage synergy between the larger company's product development assets and the target company's research team and current technology.

The other common type of agreement is the purchase of a license. There are many parameters that can be negotiated during a specific licensing deal, but overall it grants the in-licensing company rights to develop and produce the product or technology that the out-licensing company has researched. This can be a good strategy for an out-licensing company that has multiple products or platforms and does not want to be wholly acquired without further development. Whereas an acquisition proceeds with only a single partner, licensing agreements may allow different technologies to be licensed with, and developed by, different partners. The capital from a licensing agreement can also be used to push forward other initiatives, investing in additional opportunities down the line.

Licensing in Action (Deal Structure)

In an agreement signed earlier this month between Shire $SHPG and Parion Sciences, Shire in-licensed rights to a potential treatment for dry eye disease. The treatment, P-321, has been tested in early-stage clinical trials (Phase I/IIa). For the exclusive worldwide rights to develop and commercialize the therapy, Shire has agreed to pay $20 million. This may seem like a relatively small amount, but this deal is structured to include milestone payments to incentivize and reward progress. The closest milestone is worth an additional $20 million, with more advanced potential milestones bringing the total deal value up to a potential $535 million. Finally, this deal includes options for Parion to co-fund additional stages of development and earn a larger share of royalties – this gives the target company a chance to invest in the technology it has developed and earn rewards proportional to its success.

As part of our strategic advisory services, BluePrint Orphan maintains active relationships with companies interested in licensing and investing in orphan products. BluePrint Orphan also maintains a list of assets that may be appropriate licensing targets. For more information on how BluePrint Orphan can help you, contact us directly at info@blueprintorphan.com.