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A Process, Not an Afterthought

Integrating Biopharma Alliances Acquired Through M&A Activity Is Challenging in the Best of Times—Let Alone Now—but It's Better When Alliance Management Gets Involved Early

By Michael J. Burke



Mergers and acquisitions has always had a certain mystique about it: secretive transactions involving shadowy financial wizardry, impenetrable to outsiders. It's fascinating and even exciting, but can also bring with it a lot of uncertainty for the employees of companies that suddenly find themselves merged or acquired.

There's been a very lively rate of M&A activity in biopharma for some time—"thousands of deals every year, and in biotech, one a day," as an industry insider put it. And while the vast majority of these deals are about something other than alliances—drug targets, technology platforms, promising assets—alliances are often part of the bargain. They come along for the ride, as it were.

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"thousands of deals every year,
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So what happens when an acquired company has its own portfolio of alliances? What is the fate of partnerships that suddenly have a new partner? Are they deprioritized, treated as an afterthought? Are they destined for divestment, or simply absorbed into the new company's portfolio, never to be heard from again?

The answers to these questions are many, but fortunately there are alliance professionals who spend a good amount of their time thinking through such issues, getting ahead of them, and immersing themselves in alliance integration, or integration management, often well before a company and its alliances are acquired.

Taking AIM at Alliance Integration

One of the pioneers in this area has been **Steve Twait**, CSAP, vice president of alliance and integration management (AIM) at AstraZeneca. (When I spoke to him he was working out of his new home in Maryland, having recently moved back to the States after five years in Cambridge, England, where AstraZeneca is headquartered. He was happy to be back, and making all the usual—or unusual—adjustments. "The work from home I think is causing all of us to explore ways of working virtually," he said. "I was in the office every day. I never really worked from home—that was just a personal preference for me, to see people and be walking around and interact. So for me it's been more of a personal adjustment but I'm actually enjoying it.")

Even before Twait came on board, AstraZeneca under its CEO **Pascal Soriot** had begun making both acquisitions and divestments in accordance with its strategy. It identified three core areas it wanted to focus on—oncology, cardiovascular/renal/metabolism, and respiratory—and made acquisitions in those areas while externalizing businesses it no longer considered core. Someone needed to handle those inbound and outbound movements of companies, products, and people.

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Enter the "AIM team," as Twait's group is known around the company. "It was important to build up some capabilities to support the inbound transition activities that go along with an integration," Twait explained. "So I quickly found an opportunity for my team as the outbound transition work ramped up. We [had been] bringing people or products into AstraZeneca, and we were suddenly in a position where we were moving products and sometimes people from AstraZeneca to another



company, so we were involved on the outbound. I've found that a lot of the skills and the processes are very similar. I've tried to give everyone on my team an experience with either an acquisition or a divestment, [and] to build a team that can handle alliances of just about any deal type—whether it's a license, codevelopment, or copromotion, or an acquisition, divestment, or a carve-out—so that we're in a position to quickly pivot and help the company no matter what type of deal we find ourselves working in."

Finding What Fits

In Twait's mind, the process of integrating alliances is in many ways similar to that of embarking on a new alliance.

"In acquisitions, we look at the fit between AstraZeneca and the other company from a strategic standpoint, an operational standpoint, and a cultural standpoint," he said. "Those same three lenses are important in alliances because, if you think about the strategic similarities or differences, it's important to know what your partner's strategy is and how that may evolve or change over time. From an operational standpoint, you're wanting to know how they make decisions, how they run projects, what sort of fiscal year they run on. From a cultural standpoint, you want to always think through the similarities and differences. There's always corporate culture, which plays into how people develop and are recognized and rewarded—there's an element of decision making and stakeholder management—and there's also the geographic culture that's important to understand."

It's a good role for alliance managers, and one in which they can add value, according to Twait, and getting involved earlier is better, as deals are being negotiated.

"You wind up using the information you learned through due diligence in a different way," he said. "In an acquisition, you're learning some of those things to help inform what we would call the 'target operating model.' There's a lot of different approaches: You can acquire a company and let them stand alone; that's called an 'acquire-and-operate' strategy, and there are many reasons why companies do that. On the other end of the spectrum would be an 'acquire-and-integrate,' where you buy a company (or product) and you integrate all those people and processes and everything into [your company]. Again, the things you learn during diligence then inform the strategy you use in integration. And if for whatever reason the alliance management group isn't leading the integration process, they certainly usually get pulled in on the integration, because there are often alliances that need managing."



Understanding Obligations, Competitive Pitfalls, and "Existential Issues"

Another alliance leader who has built up a significant practice in this area is **Christopher Urban**, executive director, alliance management and acquisition integration at Amgen. (And of course when I spoke with him he was working at home too. "A lot of my work is done remotely anyway, but it certainly changed to be 100 percent remote from home, with a 10-year-old and an 11-year-old here with me," he said.)

"There's no doubt that in years past, alliance management's role on the front end of the deal engine was suboptimal, and it led to all [kinds of] pain points."

In his role, Urban explained, "I'm engaged in the diligence phase of any acquisition that we're seriously considering. So during that phase we have ample opportunity to learn about the alliances that exist, and it's not an afterthought—it's top of mind, because you can't transact a deal where there are existing obligations to partners that you don't understand. It can impact the way that you're able to utilize the resources contractually of the company you're going to purchase. You have to understand the portfolio of alliances that you're acquiring, and the obligations that those alliances bring. That's number one.

“Second, you have to understand whether or not there are technologies or platforms or targets that have been licensed, either inbound or outbound, that represent a restriction on what you can do with the potential acquisition target. In other words, there may be competitive issues where the company you’re trying to acquire is in an alliance with a partner that’s working on a target that you would not be able to share knowledge of, because it could be considered competitive—inappropriately so.”

An acquisition can be “an existential issue” for smaller partners.

Such competitive issues, Urban said, may require “some interesting firewall procedures” so that data and other information is not seen by those who shouldn’t. In addition, when alliances with small biotechs or other small partners are being acquired, there may be a need to reassure the smaller companies that they won’t be kicked to the curb.

“Some of those smaller partners’ existence is dependent upon the alliance, and so you can experience a lot of anxiety from those partners wondering what you’re going to be doing: Are you going to be fulfilling the obligations of the contract? Or trying to terminate the alliance? That can be an existential issue for them.”

No Afterthoughts—and No Regrets

I asked Urban whether alliances acquired in this manner might not truly be a priority when the company was bought for other reasons. He was pretty clear—crystal clear, even—in his response.

“That can be the case, but we view our role as an effective alliance management organization [such that] we don’t allow partners to be viewed as an afterthought. We feel that it’s very important for Amgen to be viewed as a partner of choice. If you conduct yourself during the course of an acquisition in a way that minimizes or underprioritizes the needs of the alliances you’re taking on—you’re delayed in responding, not communicating appropriately, or treating them like an afterthought—you’re really damaging your reputation in the industry as an organization that can effectively manage relationships and really understands the needs of different organizations. We make sure we’re as crystal clear as we can be—we’re transparent.”

Like Twait’s group at AstraZeneca, Urban’s at Amgen gets involved early and often, not only in integrating acquired

alliances, but also in being part of the deal team as partnerships are being formed or companies acquired. This can help eliminate one of the perennial sources of aggravation for alliance management—not being informed about alliance deal negotiations and thus rendered unable to give fruitful input. (See Hugh Rauscher, “Present at the Creation,” Q1 2020.)

“We are considered a fundamental, nonnegotiable part of the deal team that’s doing the evaluation,” Urban noted. “There’s no doubt that in years past, alliance management’s role on the front end of the deal engine was suboptimal or minimized, and it led to all the pain points—the feeling that a deal is just getting chucked over the transom and we have to catch it. But over the past two to three years...it’s [become] an explicit part of the process, where one of the stated roles of the alliance manager who’s engaged in the front-end diligence process is to provide advice based upon the group’s experience on contract terms. That’s provided to the deal legal team as well as to the transactions lead, so the alliance manager is part of the negotiation of term sheets to make sure we’re avoiding language that has been problematic in the past.”

Standard Features and Customization

But what is the actual process of integrating acquired alliances into an organization? Is it uniform, or does it have to be carried out on a case-by-case basis? It turns out that it’s a little of both, according to Urban.

“In general, you end up spending 80 percent of your time on the remaining 20 percent [of acquired alliances] that you have to manage differently.”

“The way I see it is, you look at all the alliances and very quickly determine that, almost without fail, 80 percent of them are fairly standard and can fit directly into whatever model the acquiring company has. However you divide up alliances, you fit them into your model exactly as if it were your own alliance and it works just fine.

“In general, like in life, you end up spending 80 percent of your time on the remaining 10 or 20 percent that you have to manage differently. You might have to do that because there is some sort of unique relationship that’s been built between a partner and the company that’s being acquired, or there are especially time-sensitive or data-sensitive issues that exist

that don't allow that alliance to simply be dropped into the Amgen model. So it's a mixture of yes, we plug them directly into Amgen's engine, because that's efficient and quick, but we don't do it blindly—we quickly identify the ones that may need unique treatment and we make exceptions for those.”

Seamless, or Secretive?

But the efficient, relatively seamless integration process that both Twait and Urban described does not happen always and everywhere. Elsewhere it may be haphazard, aspirational at best, or entirely absent. **Anthony Hörning**, CSAP, a biopharma industry veteran who now advises companies as a “free radical consultant,” as he put it, is the founder of the Basel-based Strategic Transactions Advisory AG, a senior advisor to Vantage Partners, and formerly was head of alliance management at Novartis for 10 years. (He was also working from home when we spoke, and the Swiss government had just that day announced new restrictions on public gatherings, limits on how many people could enter stores at a time, and the like. His son had just graduated from college, and the family had to toast his achievement virtually. Still, he said, “Everybody is doing whatever we can, and there's signs of people coming together, helping each other out, and that's good. It's a whole new world, and it's a very strange time.”)

Hörning believes that the shadowy, almost clandestine nature of M&A activity can make it hard for alliance management to gain visibility into the process, and thus may limit their ability to be more proactive in integrating acquired alliances.

“That is the basic underlying problem,” Hörning argued. “M&A is a very secretive kind of work, and there is an attitude to deal with all M&A transactions as if they [involved] public companies. Also, because it's such a dramatic transaction, even if companies aren't public, the repercussions of an M&A deal are enormous. By nature, the process is legally determined to have to be secret. So I think that makes it necessary to keep it [limited] to a very small group of people, and many rules limit our communication—the starting rule being, you don't communicate. It basically means that until the deal is announced or made public or otherwise divulged, there is no communication with anybody who understands the kinds of things that alliance managers understand.”

This in itself has implications, as Hörning was quick to add. “If you had alliance management draw the picture of what would be ideal, it would be the contrary. The earlier you would know about this happening, the better, because you could start thinking about the repercussions of a transfer of power over a project that is underlying the alliance from Company A to Company B—whether it even makes sense to transfer that project to Company B or not. And if it does, then

how, and who, and when exactly? All these things operationally you would be asking, and from an alliance management point of view you'd want to know way before it was consummated. So that's where all the tension comes from.”

You Can't Always Do What You Want

Another fly in the ointment is that acquiring a set of alliances is not quite like acquiring something else—a company, a product, a technology.

“Until the deal is announced, there is no communication with anybody who understands the kinds of things that alliance managers understand.”

“Everything else in the M&A transaction, the new owner can do whatever they want,” said Hörning. “If I buy a company, I can throw away all the products, I can get rid of all the personnel, I can relocate them from L.A. to Boston if I see fit. In the alliance, that's not the case: I'm basically buying a participation in a moving sort of joint venture-like business proposal, which is governed by a complex licensing agreement.



“But I do not have the power over it—and yet the repercussions are often enormous, because of the integration of the project or product that is underlying the alliance from one type of owner to another. So if a small biotech has an alliance, and the biotech is being bought by a big company, then suddenly the partner of that biotech finds themselves in a partnership with no longer a biotech but a big company, which completely changes everything.”

Meet Your New Partner

Another alliance executive who has dealt firsthand with this small company/large company partnership switch is **Alistair Dixon**, PhD, head of alliance and integration management at Brussels-based UCB (Dixon himself is based in the United Kingdom, and is also currently working from home there). In a previous alliance management role, Dixon worked for a large pharma that acquired a midsize company with a number of alliances, including some with small partners. He admitted that the change of partners is not always greeted with glee by the smaller entity.

“[You have] a relationship with one partner, and then you whisk that partner away and say, ‘Here’s your new partner,’ and the whole relationship is completely different.”

“When a smaller company goes into partnership with a midsize company, and that midsize company gets acquired by a big organization, it’s not good news for that sort of organization, because all of a sudden they drop down the pecking order, and it’s difficult for them to get bandwidth and attention, and that’s what I saw,” he said. “It was difficult as an

alliance manager because I didn’t have the legacy of a relationship with them, or the immediate understanding of some of their concerns and pressure points.”

“It’s alliance management’s job to understand the structure of the collaboration and that there are obligations—and intangible risks and loss of value if this isn’t managed in the right way.”

One such small company in an acquired alliance he inherited “really found they had a good relationship with one partner, and then you whisk that partner away and say, ‘Here’s your new partner,’ and you’re like, ‘Oh! I’ve got to start building everything over again.’ When the dynamic is that you’re now dealing with a big global pharmaceutical company rather than a small specialist company, the whole relationship’s different.

It’s All About the Value—and the Risk

As to whether acquired alliances may be treated as afterthoughts, Dixon admitted that, sadly, it happens.

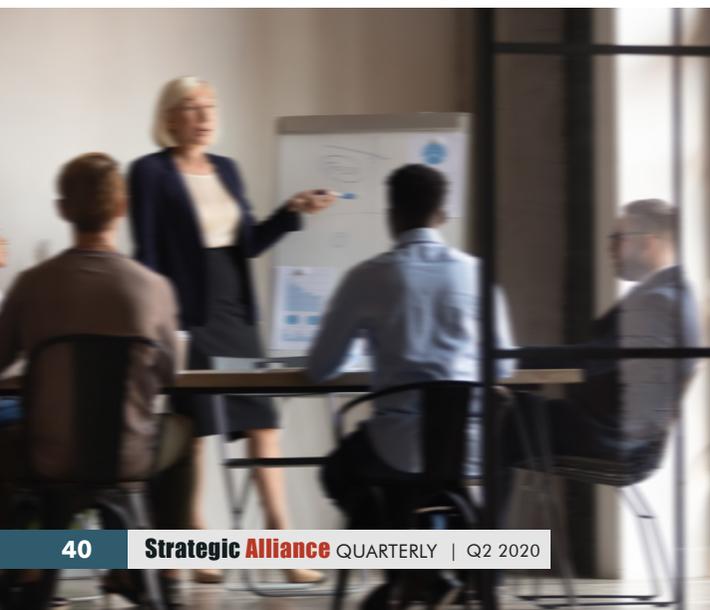
“Not necessarily intentionally,” he said. “A lot of the value [in an M&A deal] will be focused on the very tangible up-front assets—the pipeline, technology platforms, and the like—and maybe it’s an afterthought when you look at the value that’s held within collaborations and alliances.”

Nonetheless, he maintained that it’s part of alliance management’s role to surface and communicate the value of these partnerships to senior leadership, so they know what they’ve got, what their obligations are, and what resources should be dedicated to newly acquired alliances as they’re being integrated.

“And it’s not only the value, but it’s also risk mitigation as well. Quite often it’s alliance management’s job to understand the structure of the collaboration and then highlight that there are obligations here, there are intangible risks and loss of value if this isn’t managed in the right way.”

Looking for Trends

Is there a greater trend toward biopharma M&A involving alliances—even though the alliances may not be the primary driver in the deal? To that there’s probably a financial markets answer, a biopharma industry answer—and a we’re-living-through-some-crazy-times answer.



“Coronavirus aside, which of course is actually important—there’s the value implications, the stock market [swings], and deals in general are driven by considerations of value generation,” said Hörning. “You buy one company because you can be a better owner of the things that are in that company and drive more value out of them. And so the current crisis will have some repercussions. There could be some otherwise very good companies with good projects or good products in them that have just become considerably cheaper, so that could drive M&A. It’s a bit early to say.

“In certain markets...midsize and small pharma companies [have] become more vulnerable to their pipeline not yielding new ideas, so they find they have to look for a new ownership structure.”

“But there’s many different factors that influence these things. One of them is, in certain markets where you have had very severe pricing restrictions on the pharma industry, that has made midsize and small pharma companies become more vulnerable to their pipeline not yielding new ideas, so they find themselves where they have to look for a new ownership structure. For every trend like that there will be other trends that have to do with local government politics, or local home-made problems perhaps with the pipeline bounty and things like that, that have nothing to do with the overall industry trends. There have been many hundreds of M&A deals in my industry over the last few years, and there’s been ebbs and flows and ups and downs.”

More Complexity Means More Partnering

Christopher Urban takes a slightly different view.

“I don’t know if the rate of M&A is going to increase unilaterally—Amgen will only do deals where we feel certain that we will create value for patients and for our shareholders—but what I do think is unequivocal is that the need for partnering is increasing,” he said. “The complexity and the increasing rate of introduction of new technologies, modalities, and platforms really demands the risk sharing that partnering allows. When you look at the number of modalities that existed in 2010 or 2015 versus the commercial modalities in 2020, you see a sea change. The rate of introduction doesn’t allow every

company to develop all of these new things simultaneously—nobody has the resources for that.

“If for whatever reason the alliance management group isn’t leading the integration process, they usually get pulled in, because there are alliances that need managing.”

“Partnering is just exploding in terms of both the need and the sophistication that the alliance management world needs to manage these different types of partners—both increased scope and increased scale. It really places greater demands on the alliance management groups as a whole, and I spend a lot of my time focusing on staying ahead of that demand and proactively designing services that I can see the organization needing, whether that’s partnering on companion diagnostics—which didn’t exist really 10 years ago, but now nearly every program Amgen has is paired with the companion diagnostic—[or] the advent of digital health initiatives. You need to establish partnerships with the companies developing those things, because you don’t have a molecule that’s viable on the market without effective partnerships with those types of new market presences. The scope and the scale of partnering is without any question increasing.”

The Days of Simple, Straightforward Deals Are Gone

Steve Twait agreed that things have changed—not just in terms of new treatment modalities, but also a proliferation of different types of deals.

“If I turn the clock back—I’ve been involved with alliance management for 20 years—years ago, the projects we worked on were relatively straightforward,” he recalled. “It was a license agreement between two companies. The variation today is just unreal in terms of multiple companies involved in a partnership, joint ventures, carve-outs, different types of deals. The days of just the standard codevelopment, copromotion agreement between two firms—those days are behind us.

“It’s an opportunity for alliance management to think about the role they play in some of those other partnership types and types of deals. That’s an aspect that alliance management is going to get involved with sooner or later, and I would suggest it helps to get yourself in early.” ■