



Real Options – An Intelligible Framework for License Valuation & Negotiation

A case study of the GENETHON deal to identify tools and strategies for future negotiations

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Introduction of the speaker



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Real Options - A Framework for Valuation & Negotiation



amadeus



Objective: Propose an intelligible framework for license valuation & negotiation

The **Valuation** shall ...

- inform **value pricing** → task is to value a **business project** from licensee perspective,
- account for **uncertainty** and **time**,
- represent the **strategy of deferring** investments until **results** become available → **flexibility**,
- indicate the **value evolution** as results become available,
- be intelligible and transparent, such as to support **co-operation, negotiation** and **fast convergence**,
- be convincing, such that all negotiation parties can **endorse** the results.



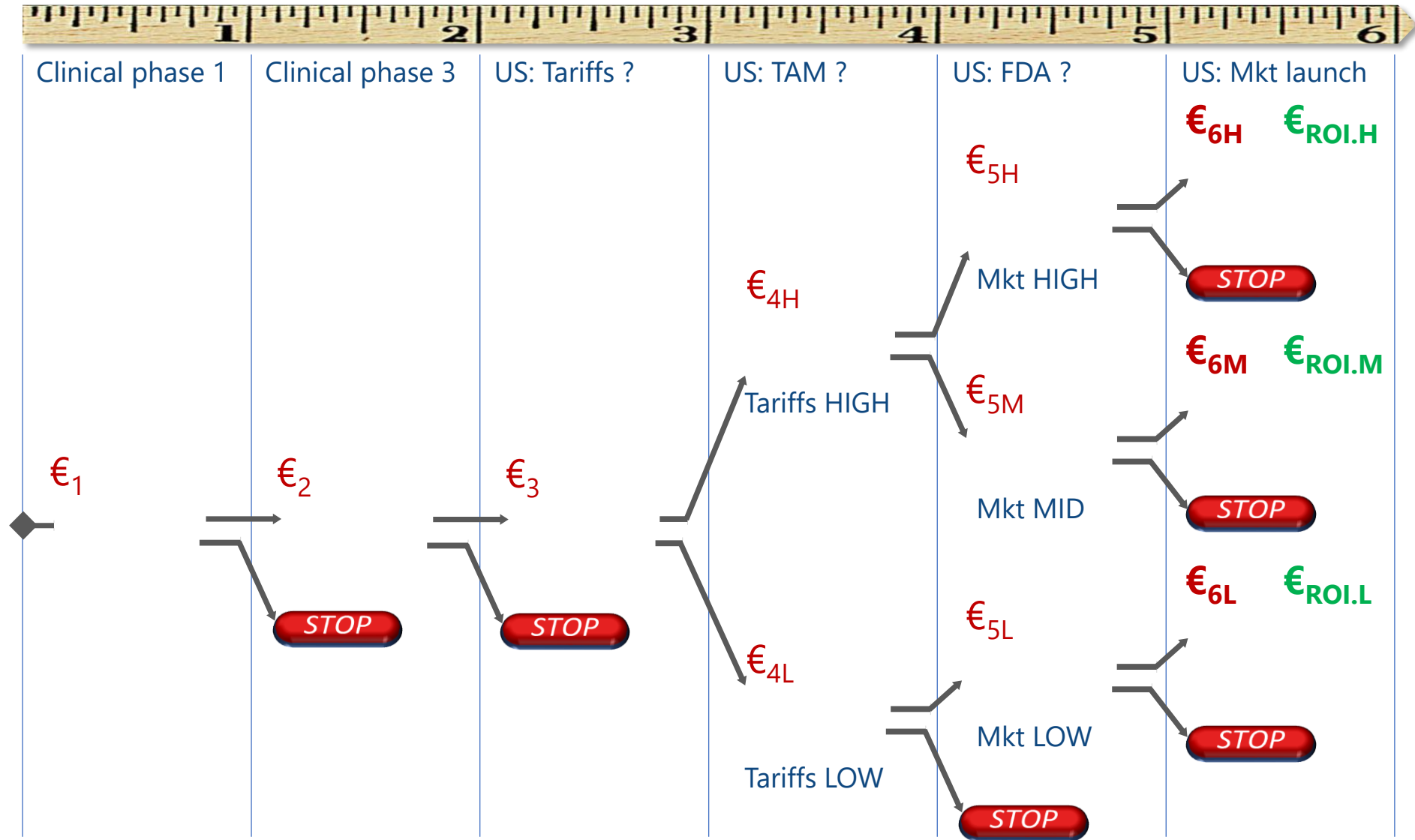
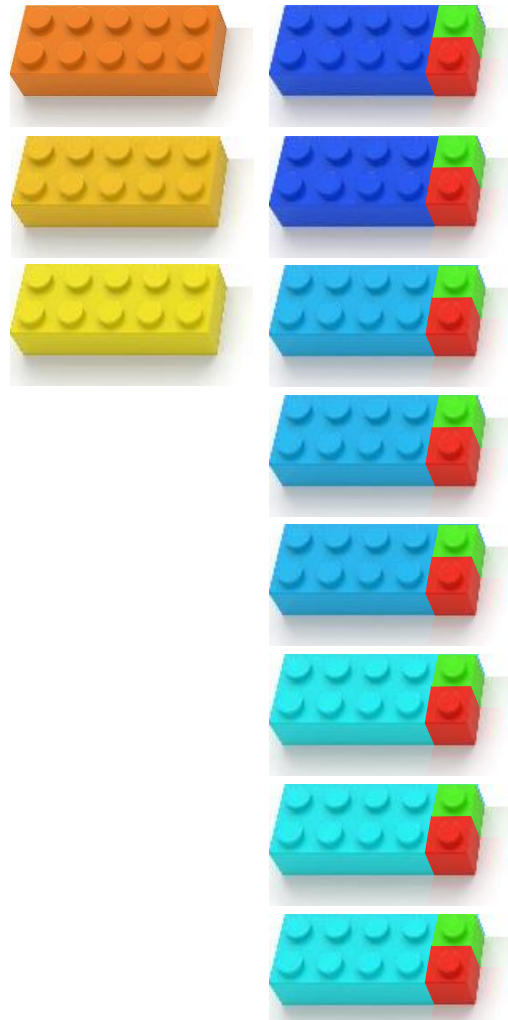
Business Project design: Real Options → For situations with **uncertainty**

MIT: Structure the project in steps, **each step resolving one uncertainty**.



Business Project design: Real Options → For situations with uncertainty

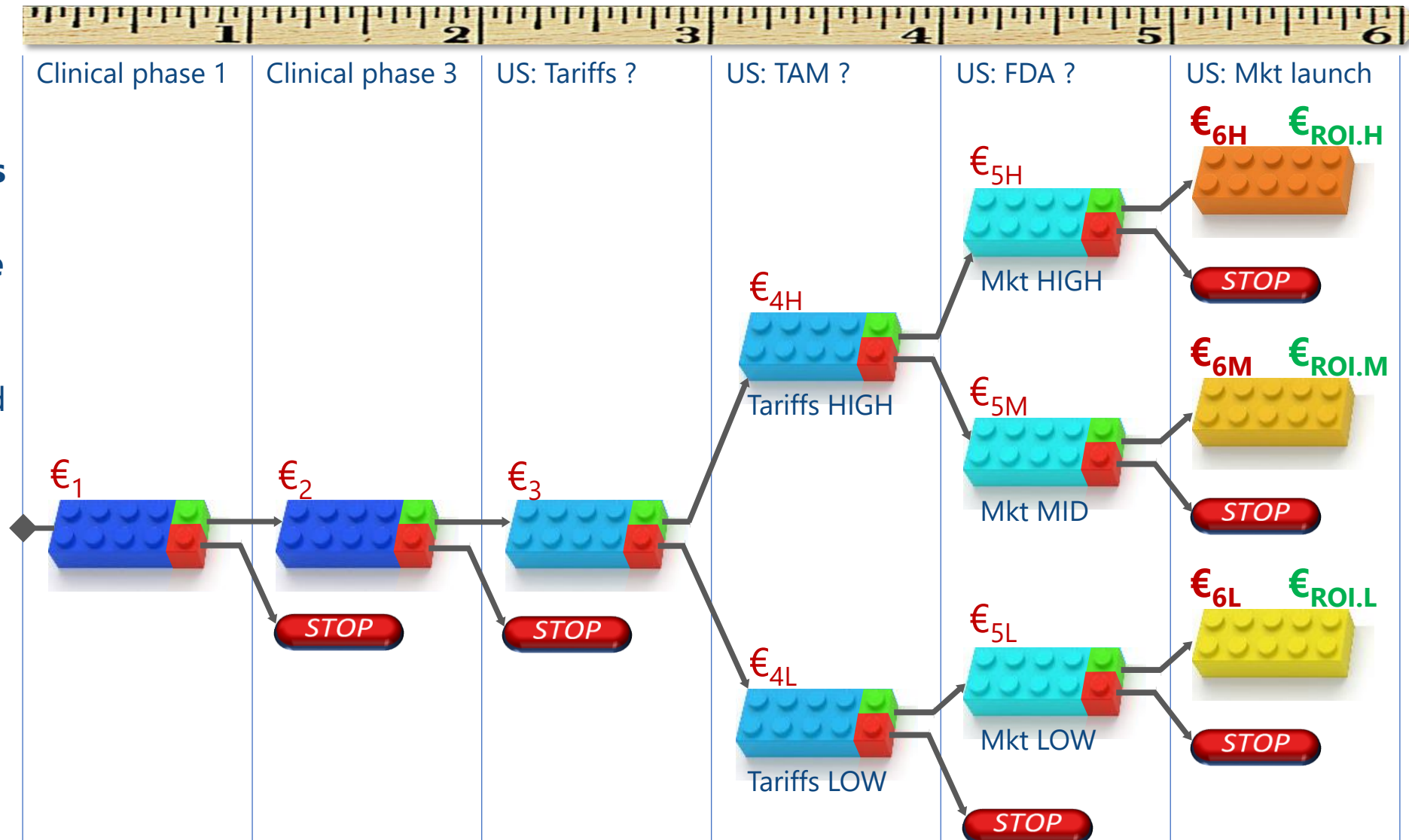
flexible WBS



Real Options: Financial Valuation

- **Financial representation:**

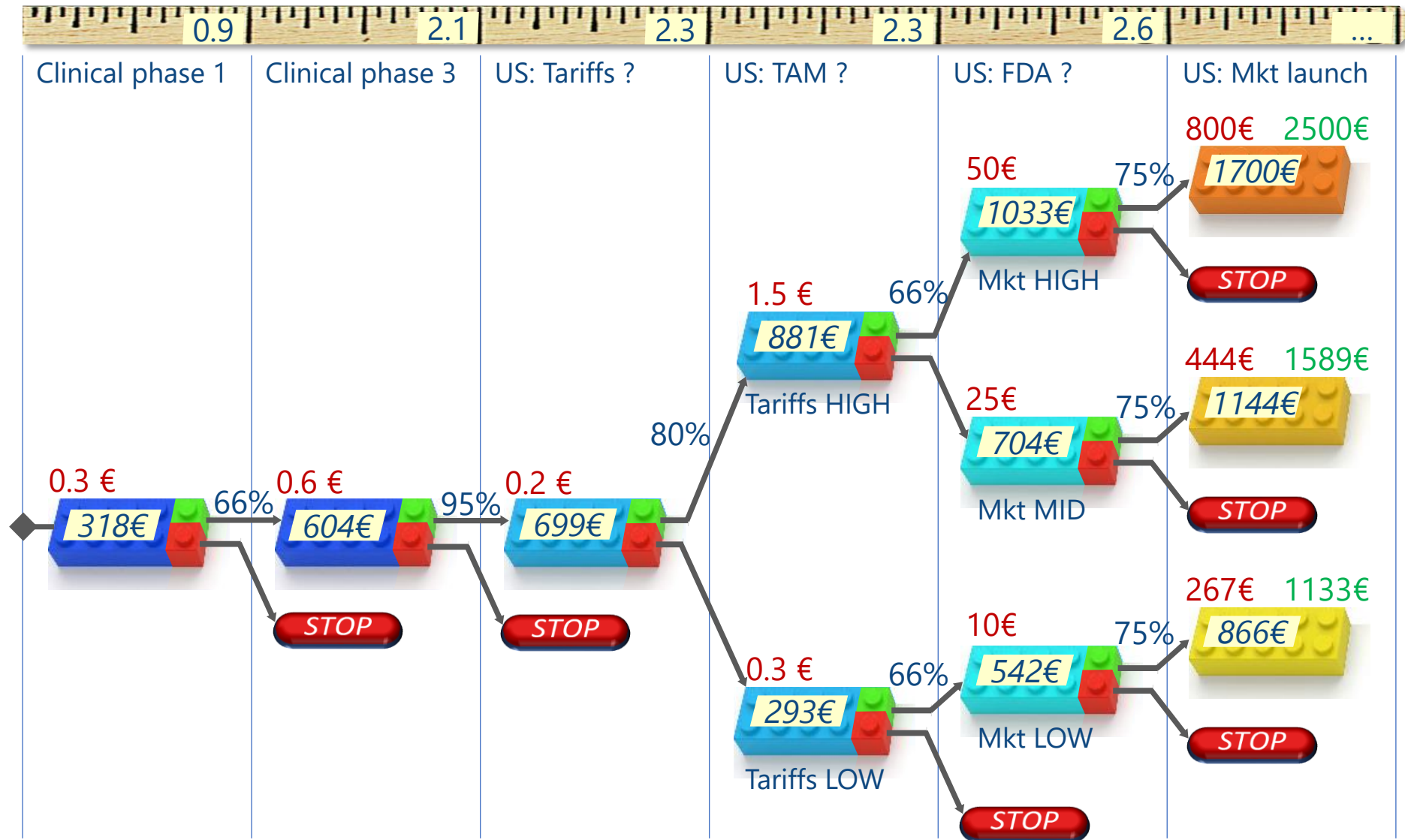
- Based on **Free Cashflows** (like classic NPV)
- Covers **uncertainty, time** and **flexibility**.
- Project valuation as **Options on Options**, and ultimately as option on the **ROI**.



Real Options: Summary of GENETHON Valuation

Comments:

- **Assumptions** based on **expert knowledge** and the actual **case history**.
- The **Option value** (\neq ENPV) depends on
 - the **future values**,
 - their **risk-levels** and
 - their **probabilities**.
- Valuation includes options on addressing **Japan, EU and Canada**, once launched in **US**.



Conclusions about the GENETHON case

- The **value** of the business project **evolves** with scientific and commercial results
 - GENETHON should **sell at the highest value** within the scope of its mission (scientific, not industrial), i.e. **after the last clinical test phase**.
- The **licensee** is exposed to **market related risks** (tariffs, volume, market approval).
 - Accordingly, the business value can vary significantly. A **return of € 2.5b can be reached** in the **optimistic scenario**, but Zero return is still possible (no market approval or no significant market).
 - However, this **uncertainty** can be addressed by **deferring investments** until uncertainty resolves.
- **GENETHON** did not know about the required **investments for manufacturing**.
 - This information asymmetry could have been a **weak point in the negotiation** with the licensee.
 - This information has been **published** in the meantime and sets a benchmark for the future.
 - Cooperation with other **manufacturers** (e.g. Germany, Swiss) could also allow to assess such investments.

Conclusions about the Real Options framework

The **Valuation per Real Options** ...

- ✓ *informs* **value pricing** by describing the **business project** from licensee perspective,
- ✓ *accounts* for **uncertainty** and **time**,
- ✓ *represents* the **strategy of deferring** investments until **results** become available → **flexibility**,
- ✓ *indicates* the **value evolution** as results become available,
- ✓ *is intelligible and transparent*, parties can **agree on a framework**, fill **it in**, compare results and exchange information to **converge quickly**,
- ✓ *is convincing*, such that all negotiation parties can **endorse** the results. Indeed, it is based on Free Cashflows, like NPV.

Real Options:
An intelligible
framework for
license valuation
& negotiation
indeed !



Thank you for your interest !

Do you have any questions or comments ?

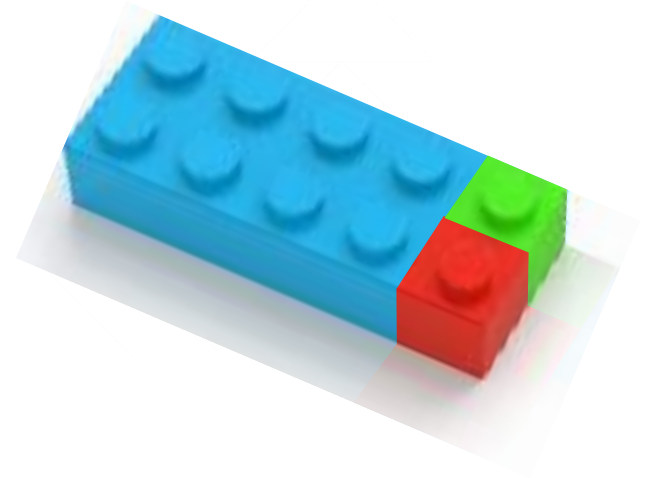


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Consulting: Business project modeling & valuation using Real Options

Software (coming soon): Real Options formalization & valorization.