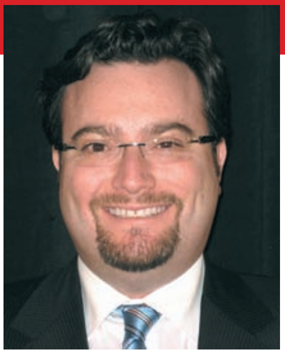

A number of factors are having a negative effect on operations and are causing many companies to reassess their cost infrastructures.

GE Healthcare Financial Services'

JASON COHEN

Talks About Market Opportunities

Jason Cohen, Senior VP and Pharmaceuticals Analyst at GE Healthcare Financial Services, with expertise in the large capitalization and specialty pharmaceutical sectors, provides advice to those operating in the specialty pharma, generics, biotechnology, and outsourced services sectors.

The faltering economy may have put a damper on many business activities, but according to Mr. Cohen plenty of opportunities still exist for companies.

CAREER Highlights

Jason Cohen joined GE Healthcare Financial Services in 2006 and is a Senior VP and Pharmaceuticals Analyst. In this role, he helps lead the GE corporate finance efforts within specialty pharma, generics, biotechnology, and outsourced services. Additionally, he provides guidance and oversight on virtually all other debt and equity transactions within the pharmaceutical space at GE. Mr. Cohen has seven years of equity research experience following the large capitalization and specialty pharmaceutical sectors at SunTrust Robinson Humphrey, Robertson Stephens, and ING Barings. He also has worked at Paramount Biosciences, a venture capital firm focused on early-stage life-sciences investments, and The Argentum Group, a private equity firm involved in the healthcare, services, and technology areas.

CHANGING THE MODEL

What are the trends impacting the pharma space right now?

COHEN: Pharma companies face a host of issues right now. They face exposure to patent expirations, they've been faced with pipeline productivity issues, and in recent years safety issues, whether real or perceived, have cropped up with certain products. There's a realization that cost structures have become relatively bloated. All of these factors are having a negative effect on operations and are causing many companies to reassess their cost infrastructures.

The big pharma model is rapidly changing. Salesforces are decreasing in size, a tremendous number of functions are being outsourced, and portfolios are being evaluated and executives are reconsidering what areas to focus on and which aspects of the business should be divested. These factors represent tremendous opportunities for providers of outsourcing services, for example CROs. There's even been an emergence of manufacturing facilities that have been divested from pharma companies along with products, and new models are evolving as a result of this. There's also an increased proliferation of specialty pharma companies — emerging small to midsize companies — that may not have a full complement of core competencies but are very good at focusing on what they do well and are targeted in their efforts.

Within the big pharma space, there are a number of forces at play. One of the most important in terms of being able to sustain the model is that as a company grows in size its products need to be bigger. Sub-$250 million products — and some would probably argue that for the biggest pharma companies sub-$1 billion products — are truly not as meaningful as they are for a smaller company.

MARKET CONDITIONS

What impact is the recession having on the ability of life-sciences companies, particularly smaller companies, to secure financing?

COHEN: The environment has changed considerably since last summer, and it is affecting the industry from a financing perspective but not materially from an opportunity perspective; that's to say opportunities continue to present themselves for companies that are not impacted by a difficult financing climate. And by that I'm referring to product and/or company acquisitions. In any market, but particularly in financial times like this, certainty of execution is critical. In other words, a seller that's looking to exit a business or a product line wants to know when it inks a deal that the deal will get done. This can be a challenge to earlier-stage companies looking to build through acquisition if they don't have the cash flow that allows them to take advantage of buying opportunities.

FINDING THE MONEY

What financing options are open to smaller companies?

COHEN: Clearly, small companies can go out and raise equity, but there are downsides to that — CEOs don't want to give away a significant piece of their companies if they don't have to. In a market like this, smaller companies need to find a financing partner that's: a) in business and conducting business, and b) that really understands the space, the potential ups and downs, and is looking to partner with such a company in a particular transaction. Broadly, though, there are many opportunities for companies to pursue, whether they're carve-outs from large pharma, product sales, or M&A opportunities. There's not a huge slowdown in how the opportunities are coming about, though there obviously has been a change in how those opportunities can be financed. It's really about finding the right opportunity and the right partner to help the company figure out an appropriate structure for a transaction or financing.

A MARKET FOR OUTSOURCING

How are all these factors impacting the market for outsourcing service providers?

COHEN: Outsourcing was not something the larger companies were terribly vocal about several years ago. Today, there's a growing internal appreciation to do things a little bit differently, and a couple of factors are driving this. First of all, there is a desire to maximize the value of intellectual property. Pharma companies are all too aware of how short patent lives are and every incremental month that a product can have on the market is beneficial to the top and bottom line. Obviously the quality of work to be performed is extraordinarily important as well. That's leading pharma companies to look for partners to help them develop their products quickly and cost-effectively, although that's not to say cheaply or necessarily cheaper. If a company is developing a product in the cardiovascular space and it's a space that it hasn't played in for quite some time, it will likely benefit from partnering with a CRO that has helped develop five of the last dozen or so big cardiovascular drugs. That's going to be helpful on a number of levels, particularly with respect to patient recruitment. At this point, particularly within the United States, patient recruitment is becoming increasingly difficult across a number of therapeutic categories. Very often companies and their CRO partners are having to look outside the country, so leveraging a company whose core competency is running clinical trials and recruiting patients in different parts of the world becomes a compelling value proposition. And that changes how a pharma company works with a CRO. Now, instead of looking at working with a CRO as a tactical arrangement, the company looks to that CRO as a strategic partner. These companies are incredibly important to pharma companies and in particular to large pharma companies. While the outsourcing growth has sprung from the rise of biotech and specialty pharma — companies that don't have across-the-board core competencies that would be associated with a large pharma company — big pharma companies are also moving more to an outsourcing model. Despite the current market conditions, financing opportunities are available to help foster the continued growth of such outsourced service providers. ✦

PharmaVOICE welcomes comments about this article. E-mail us at feedback@pharmavoice.com.