Case 3B

Type: Mergers And Acquisition

ConQuest
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CASE & KEY
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Problem Statement:

You've been contacted by the CEO of a publicly traded global pharmaceutical business who wants to know your thoughts on whether they ought to buy the patent and sales rights to a brand-new medication developed by a pharmaceutical lab.

SCRIPT KEY	
Interviewer	
Interviewee/Candidate	

You’ve been contacted by the CEO of a publicly traded global pharmaceutical business who wants to know your thoughts on whether they ought to buy the patent and sales rights to a brand-new medication developed by a pharmaceutical lab.

First, I'd like to know why our client decided to conduct this experiment. Are there any goals for revenue growth, or does it serve a strategic purpose?

The client isn't thinking of anything, but if the offer appeals to him, the medicine will be distributed all over the world. The offered contract is for $1,000,000, and they want us to evaluate its allure and suggest a course of action.

I'd like to learn more about the client's clients, goods, past experiences, company skills, and where it fits into the value chain. Are there any restrictions on the amount of time or money that can be spent?

The client is a vertically integrated, end-to-end player with a wide range of medications for cardiovascular and diabetes disorders. There are no restrictions, and the corporation is performing incredibly well in its markets. A few prescriptions and OTC (Over the Counter) medications for fitness are also included.

Okay, a big thanks. I now want to learn more about this brand-new medication for hair loss. What makes it unique in the market? What is the medication's effectiveness, and are there any side effects?

That's an excellent point; the patient only needs to take one drug, which will last them their entire lives. Since the medicine has not yet undergone clinical trials, it is difficult to determine its exact efficacy.

The medicine should be effective but could have few negative effects, according to the experts. Although there are a few existing baldness cure medications on the market, the new medication is anticipated to be far better.

What do you consider to be some drug alternatives or competitors?

There are, in my opinion, two types of bald people: those that use wigs, caps, or simply ignore their baldness rather than seeking medical attention. And the other group, which chooses therapies. The treatments can be further separated into market-available evasive and non- evasive approaches. Injections and operations are examples of evasive treatments. Non-evasive techniques include a variety of traditional therapies like ayurveda,certain oils, etc. and non-traditional pharmaceuticals.

Yes, that is a thorough list.
Great, now that I have a good grasp of the client, the new drug, and the competition, may I take a moment to organize my ideas, if that is alright with you?

Take your time, of course!

Sure. I'd want to handle this issue in five different ways:

- **Attractiveness of the market: Here, I'd like to consider the market's size, its potential for growth, and the level of competition.**
- **Financial viability: In this case, I would determine the project's fair worth using the NPV approach and the available financing options.**

• Synergies and fit: How the new medication fits into the client's current product line and the advantages or opportunities that the business will reap as a result of the acquisition of the novel medication.
• Operational feasibility: This refers to the difficulties that must be overcome in order to carry out the complete post-acquisition process, including the clinical trials, establishing the plants, and distribution and marketing.
• Benefits and hazards: Consider any potential risks that may be taken into account before engaging in the process.

Yes, I believe we can use your list. Let's start with market attractiveness. How will you determine the new drug's market size?

To calculate the market size, I would like to develop the following formula:
(# of bald people) *(percentage choosing a treatment) *(percentage choosing a non-evasive technique) *(percentage of those choosing non-traditional procedures) *(percentage choosing medications) *(market share of our drug) (price of our drug).
Do we currently have any information to move further, or should I make some assumptions?

If this drug proves to be a success, we anticipate selling it to 100,000 people for the price of $10,000.

Given that everyone is willing to pay the price of $10,000, that results in a market size of $3 billion.

Yes, that is accurate; let's now continue with the financial analysis. How will you move forward?

I want to start by looking at the financial side. I'll divide the costs into fixed costs and variable costs to do that. Clinical trial costs, plant setup costs, marketing and distribution costs, and other fixed costs are all included in the fixed costs. The cost of labour and raw materials would be considered variables. Do we currently have any quantitative information on the subject?

We do, indeed. The expenditures for the various phases of the clinical trial—phases 1, 2, and 3—are $4Mn, $20Mn, and $100Mn, respectively—as well as $4Mn for marketing and distribution, setup fees, and other fixed costs. What should your next question be now that you have this information?

What is the likelihood that each trial phase will be successful? Considering that it would be necessary to determine the expected value of the clinical studies. Additionally, if phase 1 is unsuccessful, we will have to give up on the project without moving on to step 2. The same applies to choosing a course of action for phase 3 in light of phase 2's success.

The likelihood of success in phases 1, 2, and 3 is, correspondingly, 0.1, 0.2, and 0.4.

We may therefore estimate the estimated value of the clinical trials expense to be $ 8 Mn based on the information provided (Please refer to the framework).

In a similar way, the estimated revenue can be computed as (Chance of success for Phase 1* Phase 2* Phase 3)*($3Bn)*$24 Mn, taking into account the probability of success for the project. The net difference between revenues and costs is therefore $4 Mn. Do we currently know the typical tax rate?

You might think about using a flat tax of 50%.

Therefore, the new drug's net worth should be $ 2 Mn (or $4 Mn*50%). Now that the NPV of the project would remain positive, the present offered bargain of $1 Mn appears to be appealing.

Yes, the net $1,000,000 NPV would satisfy the client. What other options would you keep in mind?

I would now think about the connections and the new medication's fit. The new drug will fit nicely in the fitness category given the client's varied array of medications and global presence. Additionally, if the medicine is introduced successfully, the company's brand image will benefit from the disruptive nature of the drug and its immediate impact. Regarding the operational viability, the company's current facilities and its ability to distribute products abroad can be easily tapped into.

Now, what do you consider to be some of the risks associated with moving forward with the proposal?

Sure. The following categories represent the dangers I have compiled:
Internal dangers:
Failure in phase trials: If a corporation has a low risk appetite, the financial flexibility of the company may be in jeopardy due to the high expenditures associated with the trials.
- **The corporation will be further burdened by delays in the clinical trials.**
- **Because this medication only comes in a single dosage, its growth rate would be exceedingly slow.**
- **Be aware of the drug's special logistical considerations.**

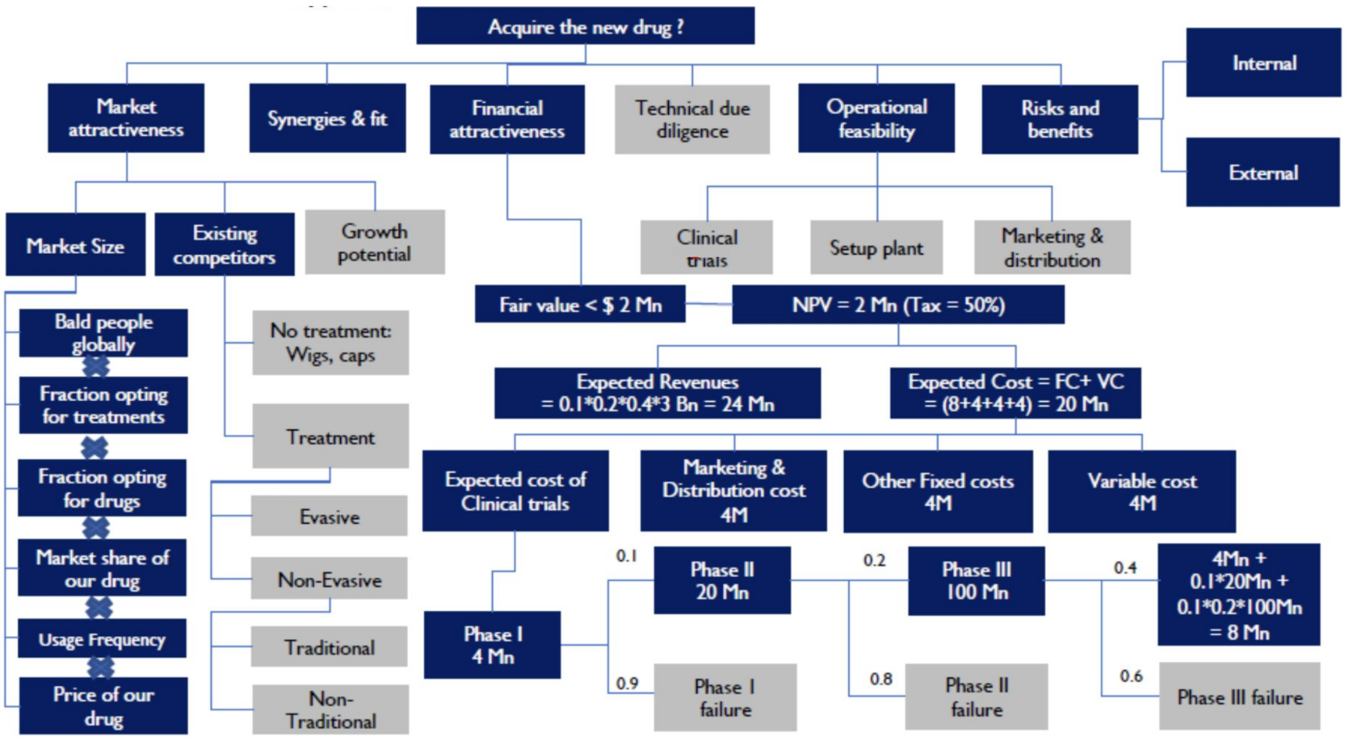
External dangers:
- **The threat of counterfeit pharmaceuticals can harm the company's reputation as a reputable brand.**
- **Country-specific regulations: In order to get the drug licenced, the corporation will need to negotiate with the governments.**

So, do you intend to purchase the patents or not?

Yes, the client should go ahead with the acquisition at the price of $1Mn.

Thank You. We are done with the case.

FRAMEWORK/ APPROACH



QUALITATIVE INFORMATION

Case Background:

You've been contacted by the CEO of a publicly traded global pharmaceutical business who wants to know your thoughts on whether they ought to buy the patent and sales rights to a brand-new medication developed by a pharmaceutical lab.

Case Facts:

1.Client is already in the pharmaceutical industry.
2.Focus on the new medicine's efficacy and side effects
3. Know the alternatives and competitors

CLARIFYING ANSWERS TO BE PROVIDED ONLY IF ASKED BY INTERVIEWEE

Interviewee	Interviewer
What is the client's objective behind making this acquisition?	There is no particular motive for this acquisition.
How much is the offered contract priced at?	The offered contract is for $1,000,000,
Are there any restrictions on the amount of time or money that can be spent?	There are no restrictions, and the corporation is performing incredibly well in its markets.

GLOSSARY

Synergies: Revenue (more market share etc.) and cost synergies (sharing of distribution channels etc.) generated through merger and acquisition.