



BIO-TECH
CONSULTING

Biotech R&D Project Valuation

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Main valuation methods of biotechnology company (R&D projects)

- Risk adjusted NPV
- Comparable valuation

NPV is a sum of discounted Free Cash Flows

FCF are discounted to reflect the time value of money and cost of capital

NPV calculation

$$NPV = \sum_{i=0}^n \frac{FCF_i}{(1+r)^n}$$

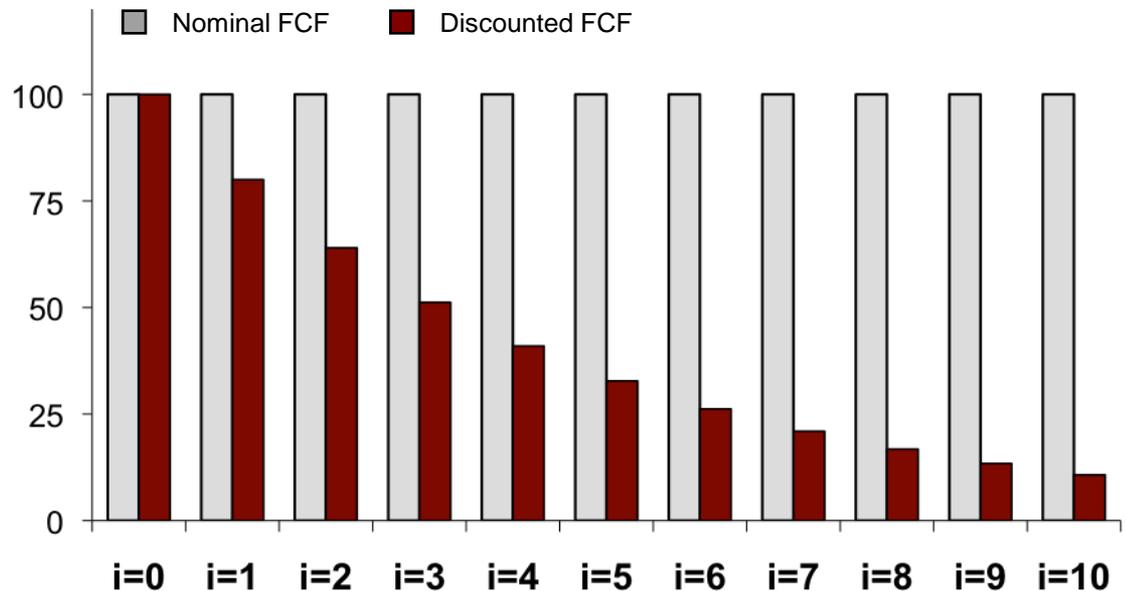
where,

i – period

n – final period

r – discount rate

Nominal and Discounted FCF at discount rate = 25%

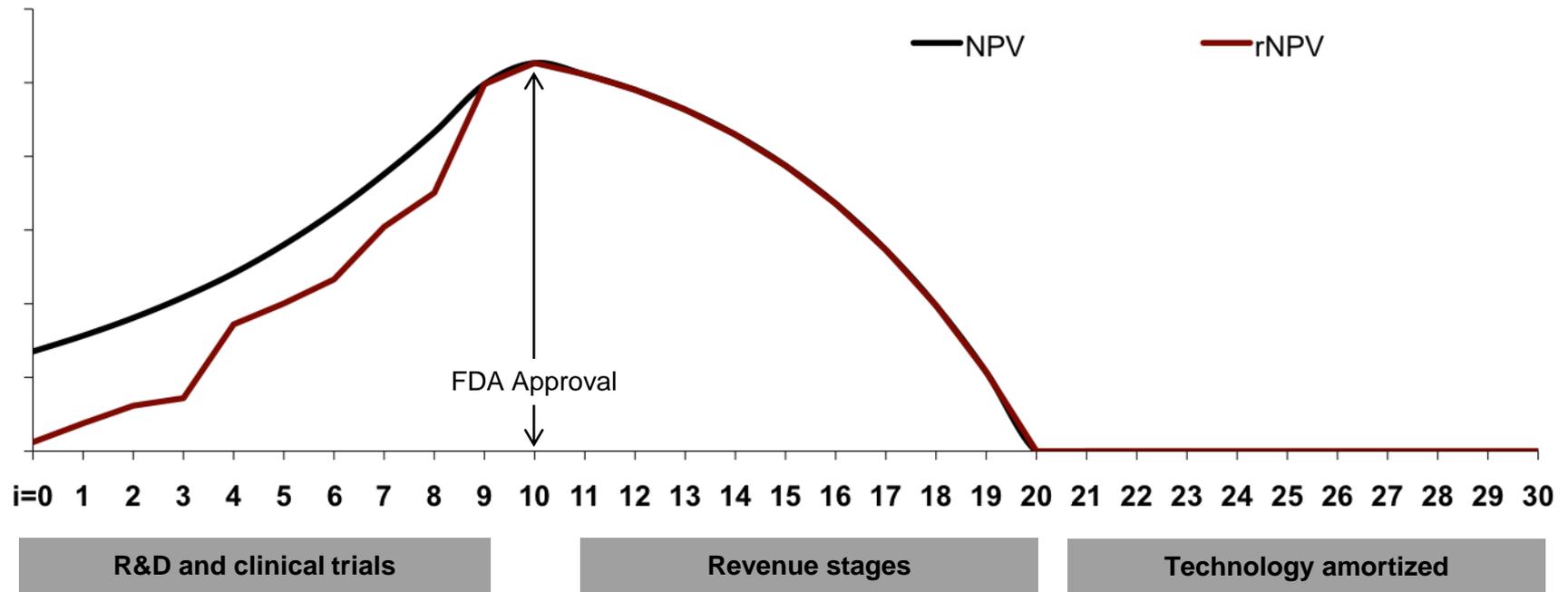


NPV of a technology indicates the present value of the entire future (net) cash that the technology can generate throughout its projected life

Risk adjusted NPV

$$rNPV = NPVPR_0 - \sum_{i=0}^n NPVC_iR_0 / R_i$$

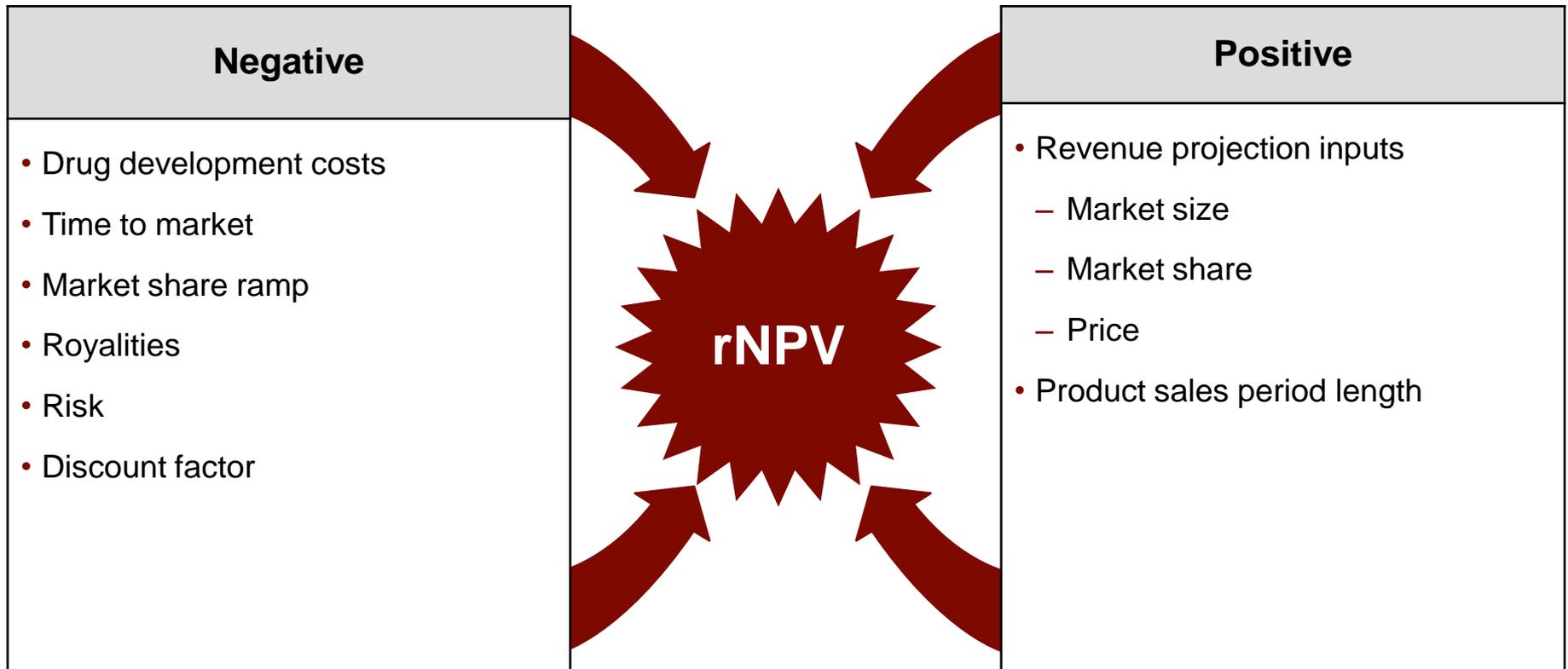
Nominal (NPV) and Risk-Adjusted (rNPV) Value of biotechnology at a given period i



Present value of risk adjusted revenue minus present value of risk adjusted costs is the rNPV of biotechnology

Valuation Drivers – implications to FCF and rNPV

How drivers correlate with valuation



Comparable valuation

- It involves collecting the data on public companies that are comparable to the company being valued
- In case of estimating R&D project value – we are looking for comparable transactions of projects similar to ours

Venture capital valuation

- The valuation is in terms of total company value rather than in price per share
- The value of company depends upon the perspective of the person doing the valuation and differ if the person is a strategic or financial investor
- The VC will estimate the time at which it is likely that they will want to exit the investment

How a management team affects the company value?

- Good management team “under promises and over delivers”
- It should be able to clearly express their strategy with lack of jargon
- It should hold shares for significant periods of time to prove their certainty in the projects well-being



There are no constraints on the human mind, no walls around the human spirit, no barriers to our progress except those we ourselves erect.

Ronald Regan

THANK YOU FOR YOUR ATTENTION!