Success Stories

Identify Optimal Strategy for Long-Term Value

Challenge

A mid-sized pharmaceutical company owned a profitable legacy product that did not fit with its strategic objectives. Despite very limited sales & marketing support, the product achieved steady revenue and provided solid earnings and cash flow to the company. Market research projected a slight decline in demand during the next five years, at which point a generic version of the product may take over the market.

Although the product met the needs of a small patient population, several potential buyers expressed interest in purchasing the marketing rights to the product. Other pharmaceutical companies viewed the product as a nice bolt-on acquisition opportunity. Private equity funds also submitted proposals to purchase the product. All offers contained contingent payment structures such as earn-outs or complicated terms for transfer of ownership.

As the company considered these offers, the product pricing environment took a very favorable turn. As a result, management felt that they could substantially increase the price of the legacy product but may face large loss of demand. The company engaged consultants to gauge the potential impact of increasing price.

Actions

To provide the framework for comparing the numerous acquisition proposals and multiple commercial scenarios, one consolidated financial model was developed to centralize and standardize all options. This Excel model consisted of separate worksheets reflecting the terms of for each acquisition offer (several potential buyers submitted multiple proposals) as well as that for retaining the product. Each worksheet contained full financials and summary information.

Since commercial scenarios were independent from ownership structure, a separate worksheet was developed to hold all potential price/demand scenarios. As the consultants hired by the business provided only semi-quantitative guidance on the impact of price increases, collaborative work was needed to develop specific projections reflecting a substantial price increase.

A dashboard displaying key considerations (e.g. EPS, cash flow) for all possible scenarios was developed to facilitate management analysis and discussion. With ten ownership scenarios and multiple commercial scenarios, static presentation materials would offer limited value. Rather, the financial model dashboard was employed as the focal point for all quantitative analysis and discussion for both local and remote meeting participants. The Business Development group required less than four hours training to successfully take control of this financial model.

Results

The analytical and model development effort facilitated the decision making process for senior management. The Business Development group successfully operated the financial model in order to guide discussions and decisions.

Senior management agreed with the Finance group finding that retention of product line represented the best long-term value for the company. Additionally, the financial model provided guidance to the Business Development group on the minimum deal terms that the company would need in order to consider divesting the product.

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