DEAL WATCH

Co-promotion deals: panacea or poison pill?

The incidence of co-promotion components in licensing deals for development-stage pharmaceutical products has grown steadily since 1996, according to data from PharmaDeals v4. In 1996, just 6% of licensing deals retained co-promotion rights or options for the licensors, whereas in 2010 so far, the frequency is double that at 12%. The most common motivation for a commercially established company to enter into co-promotion deals is to add complementary marketing capabilities to achieve greater market penetration, whereas ambitious smaller companies are typically seeking to become commercially established, particularly in their local market and also often in the high-value United States market.

Intuitively, it might be expected that co-promotion deals would be characterized by lower up-front fees paid by the licensee, as the licensor retains greater potential value. However, analysis of the data from 2004 to 2009 shows otherwise (FIG. 1). In every year apart from 2007, the mean upfront value for Phase II co-promotion deals exceeded that for licensing deals without such a component. One explanation might be the very reason for seeking co-promotion rights — the size of the market opportunity — as the greater the opportunity, the more likely a small licensor is to desire a greater overall business benefit and perhaps establish a new business model as a fully integrated pharmaceutical company. In the case of co-promotion agreements between larger pharmaceutical companies, the main drive is to fully exploit the total market opportunity through complementary partner strengths. Investigation of the downstream payments for co-promotion deals indeed confirms that on average they are larger deals that probably correspond to larger potential markets.

Analysing the outcome of 46 co-promotion deals agreed at the Phase I or Phase II stage in the 2000 to 2006 time period identified five drug candidates that had reached commercialization and three that had triggered the co-promotion. One of these (ProStrakan–Orexo, for Rapinyl) subsequently converted to a joint venture, leaving one deal between two large pharmaceutical companies (Abbott–Eisai, for Humira) and one between a small company and a large pharmaceutical company (Onyx–Bayer, for Nexavar).

For deals agreed at the Phase III stage, the timescale was extended to include deals agreed up to the end of 2009. Of the 56 Phase III deals analysed, 25 were still in development, 17 had reached commercialization and 12 had become active co-promotion deals. This commercialization success rate — over 30% for our tracked Phase III deals compared with just 11% for Phase I and Phase II deals — is not surprising, but reaching the market is not a guarantee of successful co-promotion. The typical size of the type of opportunity that would tempt a licensor to seek a co-promotion deal carries with it the need for major investment by the licensor in its marketing capabilities that some outside of large pharmaceutical companies could find challenging. So, based on purely financial considerations, a straightforward out-licensing deal may be far more lucrative for the licensor.

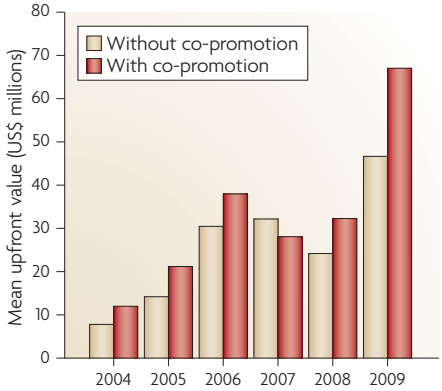

Figure 1 | **Comparison of mean upfront value of deals with and without co-promotion components.** Source: Pharmaventures' analysis, PharmaDeals v4.

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