



AF RANDI KROGSGAARD,  
KOMMUNIKATIONSANSVARLIG,  
DANSK BIOTEK

*Shortage of venture capital is a major challenge for international and not least Danish biotech companies. Pre-emptive Due Diligence is the name of a new service concept for the biotech industry offered by XOventure, a Copenhagen based company. Pre-emptive Due Diligence is a new way forward to increase value and the chance of raising money or partnering a program.*

## NEW CONCEPT HELPS BIOTECH COMPANIES CLOSE GAPS BEFORE SEEKING INVESTMENT

Many companies will be running short of money in a not too distant future. This means that a lot of companies will have to increase their efforts around capital raise in a very difficult market and face competition that just gets stronger. In this difficult situation it is of utmost importance for a company to be in good shape and to make sure that this is also how third parties perceive it. If a company appears to be in bad shape and if the presentation to potential investors or purchasers is not convincing there is a high risk that they choose another company for their investment or acquisition. And even if an investor is still interested, the valuation might be too low, resulting in a marked dilution of current shareholders.

### EVERYTHING HAS TO BE SHIPSHAPE

---

Due diligence is the investor's or purchaser's standard tool to scrutinize a company and to assess its overall standing in order to see whether the potential investment case is worth it or not. If a company appears to be an attractive investment case, due diligence is used to assess the value and it is further used to identify gaps in the overall product development process as well as to identify potential missing pieces to the interesting puzzle. In this process due diligence is in fact used to disintegrate the investment case with an overall aim of reducing the value of the company.

"In a tough competitive environment it is extremely important that a company presents itself in the best and most attractive way. All documentation shall be shipshape and the overall strategy has to be in place and aligned, with clear and confident argumentation that can defend the overall case. This not only significantly increases the likelihood of getting a new investor on board or mak-

ing a successful collaboration agreement or trade sale, but is also important in the valuation process securing the lowest possible dilution or the best return of investment," says Betina Macho, Senior Partner in XOventure, and continues: "Most companies are of course aware of that. They might believe that they are very good at presenting themselves and that development plans and documentation are all good 'because we made it ourselves and nobody knows the science and the company better than we do'. However, this is not necessarily always what the investors and purchasers see. Venture capitalists and potential purchasers from big pharma often see companies building on research with significant gaps, with ill-defined development plans, unsettled IP questions, CMC problems and just a vague description of the way to market, often building on insufficient documentation and knowledge. The big problem is that this discrepancy in perception of a company is often well hidden until the moment of truth i.e. when the investor or purchaser declines to invest or acquire or when the company is presented with an (almost) unacceptable low valuation."

### UP-FRONT IDENTIFICATION OF POTENTIAL GAPS

---

Overall, in due diligence processes unexpected questions and findings occur far too often and do inevitably result in lower valuation or loss of a potential deal. These problems can be avoided or mitigated by knowing up-front what a potential purchaser or investor may look for and retrieve in the company's records.

Øystein Rist, Director, XOventure explains: "XOventure has developed a new concept which is a pre-emptive due diligence (PDD) consultancy product



Betina Macho

that aims at scrutinizing a project and a company to identify and close potential gaps up-front, thereby increasing the value of the project and the company. The method brings in an external work force of outstanding experts in the various fields to perform a kind of "rehearsal" and training and thus prepare for the moment of truth."

## CROSS-FUNCTIONAL TEAM

The idea was launched by 'Biotech Builder' Jørgen Thorball, founder of XOventure and also well known in his capacity of serial biotech entrepreneur: "I saw an unmet need to assist companies in leveraging the quality of their development projects. In the pre-emptive due diligence process the cross-functional team represents various core competencies as applicable to the individual case, including pre-clinical development, clinical development, CMC, regulatory, IPR, business, contracts and markets. The team goes through all documentation in a multidisciplinary process in order to identify and prioritize gaps and corresponding actions for value enhancement across the disciplines. They further coach the management team to present and defend their investment case in the best possible way," he says.

## DYNAMIC PROCESS

The process is dynamic, but has well defined steps with clear end-points that are adapted to the individual companies. The process can be outlined as follows:

- Kick-off with Board and CEO/management group
- Sharing of material – all relevant documents are made available to the team under a consultancy/secretary agreement
- Analysis of material by the expert team
- Feed-back and preliminary report
- Update of material and data room by company
- Site visit, including 1:1 and panel discussions
- Final report
- Closing with Board and CEO/management group

At the end of the process, the board receives a presentation with a summary of all identified Value Enhancing Op-

tions, including a risk assessment and recommended prioritization across the disciplines.

## 5-7 EXPERTS INVOLVED

On average, a biotech company with 1-2 lead programs spends around 7-12 days of internal time, mainly depending on the status of the company's records and the overall documentation level, which both have proven to differ significantly from company to company.

The XOventure team is assembled on a case by case basis from the Company's international network of experts in the various disciplines from Europe, US and Asia; 5 to 7 experts are assembled for each process, and is led by a project leader to ensure an effective multidisciplinary process.

The team has already gained considerable experience working together on a number of cases, proven their abilities to deliver a successful and unique cross-functional outcome to the stakeholders:

- 1) Preparation of the management team for executing a deal or raising money



Jørgen Thorball

- 2) Increased investor and owner confidence in the project and their return on investment
- 3) Increased confidence of purchasers or new investors regarding 'what you see is what you buy'.



**HB Medical** packs, repacks and fills up for pharmaceutical and biotech companies.

**HB Medical** packs and distributes for clinical trials

**HB Medical** offers pharmaceutical consulting services

**HB Medical** has been approved under section 39 by the Danish Medicines Agency and is authorized by the Danish Veterinary and Food Administration

- Production/packing/repacking
- Storage and distribution of study medicine
- Storage room with refrigerating facilities
- GDP / GMP
- Consulting business

**HB-MEDICAL APS**  
KANALHOLMEN 25-29 · BUILDING 6  
DK-2650 HVIDOVRE  
T: +45 36 49 55 00  
F: +45 36 49 55 07  
E: HB@HB-MEDICAL.DK  
WWW.HB-MEDICAL.DK