How ‘fit’ is your capital allocation strategy?

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Summary

Even in an age where biopharma valuations are high, adopting an “activist” mentality adds rigor to capital allocation and strategic decision-making, improving not just returns to shareholders but long-term value creation. Therefore, biopharma management teams and boards of directors should proactively assess the “fitness” of their capital allocation strategies and their alignment with operational performance goals by taking an outsider’s view of the business even when times are good – and before a material stumble provides a compelling reason for an outsider to act.

An era of increasing transparency

The past two years have been good times for biopharma companies. Valuations are at or near all-time highs. The strongest IPO window in the industry’s history has yielded a kaleidoscope of exciting public companies. Companies big and small are delivering on novel pipelines, while new expedited approval channels mean greater regulatory predictability.

Still, some pressing issues darken the optimistic skies of the life sciences sector. Many of the biggest companies are experiencing a slowdown in revenue growth. Ongoing questions about pricing and access to truly breakthrough innovations continue to dog the industry. Payers around the globe are offering tough words about the value of late-stage or newly launched pharmaceuticals. And R&D costs are rising to unsustainable levels due, in part, to the need to collect real-world evidence to justify pricing decisions.

In such an environment, it is hardly surprising that some investors want greater transparency. Consider the tack taken by the UAW Retiree Medical Benefits Trust, which owns shares in both Gilead Sciences and Vertex Pharmaceuticals. In November 2014, the trust proposed that shareholders be allowed to vote on resolutions that require the drugmakers to disclose the business risks associated with their drug pricing decisions. Despite company objections, in early 2015 the U.S. Securities and Exchange Commission ruled the shareholder requests do not constitute “micromanagement,” paving the way for inclusion of the resolutions on the annual meeting agendas of both companies.

In May, a majority of Gilead shareholders voted to reject the resolution. As this document went to press, shareholders were preparing for the annual meeting of Vertex Pharmaceuticals. Regardless of that result, the UAW Trust’s action is an important reminder that shareholders represent a potentially disruptive force at a time when the life sciences industry continues to experience rapid change.

Investors are not content simply asking hard questions about drug pricing, capital allocation or operational matters. Instead, they are prepared to take a more aggressive stance – either on their own or jointly with activist hedge funds and strategic acquirers – to advocate for changes they believe will create the greatest shareholder value. As a result, it is not hyperbole to suggest that one significant managerial misstep can open the door to activism.
The rising tide of shareholder activism

While small to mid-sized biopharmas with poor margins, unfocused R&D strategies and weak governance have long been activist targets, even sizeable firms with good growth prospects are now at risk if investors perceive weaknesses that result in a material difference between a company’s market value and its intrinsic value. Indeed, that is one of the key lessons learned from Valeant Pharmaceuticals and Pershing Square’s pursuit of Allergan. (See accompanying article, “In pursuit of Allergan”.)

Many industry players are well along the journey of right-sizing their R&D and sales and marketing budgets. They have also taken important steps to be more efficient with their capital. Still, the hard truth is most biopharmas have only partly rationalized their cost structures. Fewer still have optimized their working capital. At the same time, the accelerated pace of biopharma M&A, including divestitures, creates comparables to independently value individual business units or product lines. These widely available data enable activists to perform do-it-yourself sum-of-the-parts analyses that persuasively articulate how selling or splitting up a company might create value.

In the current climate, it is urgent that companies optimize both capital allocation and operational performance before underperformance triggers the involvement of an activist.

While these topics are bread and butter for corporate finance teams, many companies address them in isolation of their strategic decision-making. That is a mistake. Simply put, “good enough” capital management or operational performance is less relevant if shareholders believe more could be done.

The academic and author Henry Mintzberg famously once said, “Management is, above all, a practice where art, science and craft meet.” As management teams debate different approaches to value creation, they will need to consider multiple options simultaneously, ranging from deploying capital via share buybacks or dividends to potentially transformative acquisitions and divestitures.

It would be so much easier if executives could follow a simple prescription for value creation, but the job of management is to assess the full spectrum of strategic choices and act opportunistically based on the company’s specific needs at the time.

As Paul Clancy, Chief Financial Officer of Biogen, notes in an accompanying article, the levers of value creation aren’t mutually exclusive. “Great managers don’t get wedded to one strategy over another, but consistently choose to deploy their capital in a way that maximizes the long-term cash-on-cash returns,” he says. That is easier said than done.

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Paul Clancy
Chief Financial Officer of Biogen
Management teams must challenge their internal assumptions about value creation and critically examine their businesses in order to create the greatest value for themselves and their shareholders. We believe the following five questions provide a helpful framework:

1. Does the company have the right overall cost structure?
2. Are portfolio businesses worth more together than they are apart?
3. Are current capital allocation decisions financially and strategically aligned with the company’s mission?
4. Given the close linkage between R&D and long-term value creation, are R&D investment decisions consistent and well-articulated?
5. How open are communications with shareholders, especially the institutional investors that vote shares?

By asking and answering these questions, companies can make sure their overall strategic priorities are closely linked to their financial capabilities. Borrowing terminology from William Thorndike, author of *The Outsiders: Eight Unconventional CEOs and Their Radically Rational Blueprint for Success*, such an approach forces executives “to think more like investors than managers,” with a relentless focus on return on invested capital.

If management teams and boards proactively choose to act like outsiders, it is easier to understand and debate alternate viewpoints on value creation and long-term strategic direction. Effectively, companies are exercising their inner activist. In doing so, they not only avoid the disruption that often comes with activism, but companies stand a better chance of making critical strategic decisions on their own terms – and in their own time frames.
The questions outlined on page 5 are designed to address what we believe are the central points of value leakage for biopharmas, resulting in potential gaps between market and intrinsic values. As such, they correlate well historically with known triggers of biopharma shareholder activism.

- **Operational performance:** In an era of high valuations, there has been less pressure on companies to practice the fiscal discipline associated with straitened circumstances, but activist investors will look for companies that are lagging relative to their peers. Indeed, suboptimal performances relative to peers in areas such as operating margin, SG&A spend or revenue growth are increasingly red flags for investors.

- **The R&D cycle:** As we wrote in our 2014 report, *Beyond borders: unlocking value*, R&D remains a critical point of value leakage due to its long cycle time, high cost and low probability of success. Because of the high failure rate, investors typically assign little or no value to products under development. For companies with revenue-generating assets as well as others still in development, this creates an obvious tension. Can more value be created by investing in the internal R&D pipeline or on market products? Should companies focus on organic growth or business development, either M&A or alliances?

- **Capital structure:** Biopharmas are returning cash to shareholders at unprecedented levels. But are management teams pulling these levers when they are most likely to create the greatest value for the company and its shareholders – or when a short-term “pop” in earnings per share is required?

- **Business portfolio:** As execution risks have grown with the emergence of new competitors and reimbursement pressures, focus is the new mantra. Companies are reassessing whether they have the requisite skills and scale to compete across diversified lines of businesses. In many instances, they do not, in which case they may be simultaneously overinvesting in lower-value businesses and underinvesting in higher-growth areas.
What is driving biopharma activism?

To understand how value leakage in these four areas might drive shareholder activism, we compiled a database of biopharma activism cases using data from Capital IQ, FactSet’s SharkRepellent database and the U.S. Securities and Exchange Commission’s EDGAR database. Based on our research, 143 cases of biopharma activism occurred between 1 January 2006 and 31 December 2014. We further analyzed these campaigns, categorizing the target companies by market capitalization and the motives of the activists. (See the Appendix for a discussion of our methodology and definitions.)

Not surprisingly, a majority (78%) of the 2006-14 activist campaigns involved companies with market caps of less than US$1 billion. However, our analysis also showed that as time progressed, activists were more willing to target larger entities as measured by mean and median market capitalization data. During 2006-08, for example, the mean market capitalization of the 11 activist targets was US$5.4 billion and the median was US$4.2 billion. For the three-year period ending 31 December 2014, the mean market capitalization grew to more than US$36 billion and the median market capitalization increased nearly six-fold. (See Exhibit 1.)

Admittedly, a boom market in 2013 and 2014 means market caps during the latter part of that time period were on an upswing, potentially biasing the data. Normalizing for this increase in market valuation, the median market cap of activist targets still increased by 180%.

Exhibit 1: Activists are targeting larger biopharma companies over time

Source: EY, Capital IQ, FactSet’s SharkRepellent and company filings. Only biopharma companies with market caps greater than US$1 billion were included in the analysis (n = 31). Market capitalization valuations were established before activist involvement.
A decade ago, shareholder activists primarily targeted biopharmas for two reasons: 1) to improve governance and create more shareholder-friendly policies (e.g., the elimination of either poison pills or lavish severance packages for management), and 2) the opportunity to sell the company to a strategic buyer.

To understand if the drivers of activism changed over time, we assessed the motives of the activism cases in our data set. Our analysis suggests that while governance- and transaction-motivated activism remain significant, other triggers, particularly business portfolio restructuring and operational performance, have grown in importance. This is particularly true for companies with market caps greater than US$1 billion. Indeed, an examination shows that during 2006-10, 76% of the time, governance- or transaction-related issues triggered activists’ efforts; that percentage dropped to 64% in the four years ending 31 December 2014. Similarly, just 19% of the 21 campaigns waged during 2006-10 were triggered by either operational or portfolio concerns, but 29% of all biopharma campaigns were motivated by underperformance in these two categories in 2011-14. (See Exhibits 2a and 2b.)

These findings aren’t particularly surprising to Peter Wirth, currently the Chairman of FORMA Therapeutics and formerly Executive Vice President at Genzyme (prior to the Sanofi acquisition). At the bigger players, “there never was much governance abuse. The top concerns of shareholders — for instance, poison pills or staggered boards — were structural impediments to changes in control, but they were seldom used in practice.”

Similarly, the decline in transaction-motivated activism among the companies with market valuations exceeding US$1 billion can be explained by the strengthening biotech market. As valuations began to climb in 2012 and then skyrocketed for much of 2013-14, the gap between market valuation and intrinsic value winnowed, making transaction-motivated activism riskier. As Wirth puts it, “If you ran discounted cash flow analyses against some of the companies in the market, how could you justify the acquisition premiums?”

Exhibit 2a: Governance- and transaction-related concerns are the most common triggers of biopharma activism...

Exhibit 2b: ... while in larger biopharma companies, activists increasingly push for changes in operational performance and the business portfolio

Source: EY, Capital IQ, FactSet’s SharkRepellent and company filings. Data set for Exhibit 2a includes activist campaigns launched against all biopharma companies between 1 January 2006 and 31 December 2014. Data set for Exhibit 2b includes only biopharma companies with market capitalizations greater than US$1 billion. The number of activist campaigns in a given time period is shown in parentheses. If multiple motives triggered a campaign, each motive was counted individually.
Despite the high valuations associated with the current bull market, activists may still perceive a value arbitrage opportunity related to either operational performance or management of the business portfolio. “We see plenty of companies where the stock has done reasonably well, but, boy, they are not run well,” says Alex Denner, founder of the activist fund Sarissa Capital Management.

Built-in market protections such as patents and product exclusivity also contribute to this lack of fiscal discipline. Dennis Purcell, a senior advisor to Aisling Capital, notes that because the recent bull market has made it so easy for smaller biotechs to raise money in recent years, the temptation is not to save money for a rainy day. “There’s a tendency to be less disciplined about the allocation of capital,” he says.

To understand which companies are at greatest risk of activism in today’s climate, we analyzed the performance of industry bellwethers using two different metrics: total shareholder return and expense ratio data.

To gauge relative performance in a rapidly changing industry, we tracked cumulative total shareholder return for 31 biopharma companies from 2009 to 2014. (See Exhibit 3 and the Appendix for a complete list of companies included in the analysis.) One-third of the companies were big biotechs, one-third were specialty pharma/generics firms, and the rest were big pharma companies.

To establish benchmarks for this set of companies, we calculated the median cumulative total shareholder return, as well as yearly medians for companies in both the bottom and top halves of the group. In this way, we stratified the population into quartiles: significantly underperforming, underperforming, overperforming and significantly overperforming.

Four of the 31 companies in this data set were targets of activism in either 2013 or 2014. When we further analyzed the total shareholder return posted by this subset, we discovered something striking: the median total shareholder return generated by our four activist targets tracks closely with the median total shareholder return associated with the companies in our bottom quartile.

In 2011, before activists became publicly involved in any of the four companies, total shareholder return for this subgroup dropped by 17 percentage points, from 34% to 17%. In comparison, total shareholder return for the bottom quartile of companies at that time point was 21%. These data suggest activists are prepared to act opportunistically when a material stumble creates a value arbitrage opportunity that widens the gap between a company’s market value and its intrinsic value. Based on our results, we believe the bottom quartile of companies in our analysis, which includes six big pharma, is at elevated risk of shareholder activism.

In addition to measuring shareholder returns, we also wanted to understand how costs associated with SG&A, R&D and effective tax rate might be triggers of operationally driven activism. We therefore benchmarked SG&A and R&D expenditures for 26 biopharmas, calculating the total cost associated with these activities as a percentage of non-GAAP adjusted 2014 sales. We also compared the effective tax rates of the individual companies to their peers, based on their subsector categorization.
Interestingly, two companies that were targets of activists in 2014 — Allergan and Amgen — had R&D or SG&A spending that pushed their expenses as a percentage of sales above the median threshold of 42%. Allergan, for instance, allocated 38% of its total 2014 revenues to SG&A costs and 17% to R&D spending. As a subsector, however, specialty pharma companies spent 25% of sales on SG&A and 7% on R&D. (See Exhibit 4.)

Allergan’s above-average expenses were due in part to its high tax rate relative to its specialty pharma peers. Close to 85% of the leading specialty pharma/generics players are domiciled overseas, while Allergan has remained headquartered in the US. Thus, its effective tax rate was 8.5 percentage points higher than the subsector average. (See Exhibit 5.)

Allergan’s former Chief Executive David Pyott acknowledges investors might have challenged the firm’s high SG&A costs. However, he counters Allergan had “cogent arguments” for its decisions. “We had to create not only sales forces but market competencies,” he says. “You don’t build markets with water. You need gasoline to fuel the engine.”

As the activist case against Allergan demonstrates, even well run companies can fall victim to their own strategic choices not because they are inherently incorrect, but because an activist group can develop equally cogent arguments for an alternate approach. Because of Allergan’s high tax rate and SG&A-to-revenue ratio, there was a big enough gap between its market value and its intrinsic value to attract a strategic buyer — and a shareholder activist.

In such an environment, some of the firms at greatest risk of disruption by activists are the industry’s bellwethers. “As firms grow, it’s hard to run things with optimal efficiency,” observes C. Fritz Foley, PhD, a professor of finance at Harvard Business School. “Some of the funds are large enough they have the wherewithal to take significant positions in even the biggest players,” he notes. Pyott is even more blunt in his assessment of the current hazards facing biopharmas: “No one is safe,” he says.
Simply put, “good enough” capital management or operational performance is less relevant if shareholders believe more could be done.

Exhibit 5: Benchmarking 2014 effective tax rates

Source: EY, Capital IQ and company filings. Effective tax rates (ETR) for 2014 were calculated using the following publicly available information: total tax paid by the corporation and net income before taxes. Recent targets of activism are shown in yellow. Median data are shown in dark gray.
Mind the value gap

Maybe no company is safe from activists, but there are steps management teams and boards can take to inoculate themselves. Bare minimum, we believe management teams and their boards of directors should continually reassess their capital allocation plans, cost structures and balance sheets using an integrated approach designed to minimize the potential difference between market value and intrinsic value. (See Exhibit 6.)

This sounds very basic, but such vigilance is not necessarily a core focus of management teams. According to Stephen Murray, President and CEO of private equity firm CCMP Capital, "the whole activist industry exists because public boards are often seen as inadequately equipped to meet shareholder interests" (Harvard Business Review, Jan-Feb 2015). EY’s own analysis suggests that at 14 of the largest US and European biopharmas, up to US$37 billion in cash is unnecessarily tied up in working capital.

As Harvard’s Foley notes, “companies can remain fixated on growth and developing new products at a time when outside investors view those capital allocation decisions as money not well spent.” He differentiates "good growth" that creates shareholder value from "bad growth" that destroys value. When activists identify a company pursuing bad growth with significant value destruction, simply stopping those initiatives can benefit shareholders.

Exhibit 6: The EY activism risk matrix

To help management and boards better align with their shareholders, EY has created an integrated approach to understanding the business considerations of greatest interest to activists.

<table>
<thead>
<tr>
<th>Evolving importance as an activism trigger</th>
<th>Activist agenda</th>
<th>Key considerations</th>
<th>Who is at greatest risk?</th>
</tr>
</thead>
</table>
| ➧                                      | Operational performance | • Effective tax rates  
• Operating margins  
• Revenue growth | • Big phamas that have not fully rationalized their cost structures  
• Specially phamas with high R&D budgets and high tax rates |
| ➧                                      | R&D | • R&D spend as a percentage of sales  
• Estimated return on invested capital associated with pipeline | • Commercial-stage companies with slowing revenue growth and high R&D costs  
• Growth companies investing in therapeutic areas outside their core expertise |
| ➧                                      | Business portfolio restructuring | • Sum-of-the-parts analysis for individual business units  
• Critical mass in a particular business or therapeutic area | • Diversified biopharmas that must manage different rates of return and associated cost structures for portfolio businesses  
• Biotechs that use on-market drugs to subsidize inefficient R&D |
| ➧                                      | Governance | • Board independence  
• Executive compensation and incentive alignment  
• Strategic direction | • Smaller, less mature biotechs  
• Biopharmas with unfriendly shareholder policies  
• Underperforming companies, because changing governance can be a first step to addressing operational performance or portfolio matters |
| ➧                                      | Capital structure | • Current available cash balance  
• Excess working capital  
• Leverage | • Companies with significant cash on their balance sheets, especially if they have not recently issued dividends or repurchased shares.  
• Companies with inefficient capital structures, e.g., too little debt |
| ➧                                      | Sale of the company | • Estimated value based on comparable trading and transaction multiples versus current market value | • Small biotechs whose market values have dropped below their cash balances  
• Specialty pharma companies and big biotechs that are overly reliant on a single product and have weak pipelines |

Source: EY
By focusing on maximizing long-term intrinsic value and making sure the stock price reflects it, companies and their boards adopt the scales their investors use to judge them. To help teams remain focused on return on invested capital across the entire value chain, we recommend companies build the following five steps into their regular strategic planning initiatives:

1. **Review existing cost structures and assess opportunities to enhance efficiencies**

Even companies with superior shareholder returns and stronger revenue growth need to carefully benchmark operating expenses such as SG&A spend, R&D costs and tax rates. To minimize the risk of activism, companies that post expenses significantly greater than their peers’ must first understand the key drivers of these costs. Next, they must either take steps to address the issues or articulate why long-term value creation will result.

Companies should expect that activists will prod them to be as aggressive as possible when it comes to cost reductions and capital efficiency. Case in point: in its fourth quarter letter to its shareholders, the activist hedge fund Third Point lauded “the long-term vision and discipline” of Amgen’s initiative to improve operating margins and reduce costs. However, Third Point was also quick to point out the proposed steps only went part way to unlocking value for Amgen’s shareholders. “We feel this story is still in its early innings and there is still substantially more value for Amgen shareholders to realize,” Third Point wrote.

Cultural barriers, however, often prevent companies from adopting the leanest possible infrastructure. A former pharmaceutical executive tasked with cutting costs within his company told us, “Stripping out the first US$2 billion was relatively straightforward. We probably could have cut another $500 million in costs, but at some point there was change fatigue. We didn’t have the energy.”

2. **Perform “virtual carve-outs” to assess the value of potential divestment opportunities**

It’s also not trivial to proactively examine the value that can be created by divesting a business or product line. From 2007 until recently, many big phamas used diversification as a means of weathering the headwinds associated with patent expiries; regular sales in lower-margin but safer businesses such as animal health or consumer health were one way to smooth out lumpy quarterly earnings as key products lost exclusivity. However, with that diversification came the additional complexity of optimally managing multiple business units with varying growth rates and prospects.

In the wake of health care reform and industry consolidation, executives have begun to appreciate the importance of scale in a given therapeutic disease or business specialty. Based on data from EY’s Global Divestment Study, life sciences companies are beginning to reallocate their portfolios in order to reinvest in growth areas. Indeed, the complicated three-part deal between GlaxoSmithKline and Novartis, to create vaccine and oncology powerhouses as well as a consumer health joint venture, is an important example of this trend.

However, there is more still to do. If a company is not a market leader in a particular area, it must face the hard truth that further investments represent an opportunity cost, sucking up valuable management time that would be better spent elsewhere. Such businesses, in essence, are like ice cubes: the longer you hold them, the less they are worth.

As the pendulum has swung back in favor of focused business models, it has also created credible comparables in animal health, consumer health, diagnostics, oncology and vaccines. Investors can use these comparables to benchmark the performance of individual business units or product lines within diversified biophamas. Based on their sum-of-the-parts analyses, investors may believe more value can be realized by spinning off or selling diversified assets. However, such situations, there is a disconnect between how company management and the market value the assets as part of the conglomerate configuration versus as individual entities. It is a scenario ripe for activism.

To create maximum value and lessen the risk of activism, companies should track the individual performances of each business unit and perform virtual carve-outs to understand the potential impact of a divestiture. The do-it-yourself sum-of-the-parts analysis also means modeling the potential economic returns, stranded costs and tax considerations that could come from a sale, a spin-out or the creation of a joint venture with a third party. (See the accompanying articles “Creating value from carve-outs” and “Understanding the tax implications of divestitures.”)

In taking these steps, management teams develop specific perspectives about how their business units will deliver shareholder value over time, creating natural alignment with investors. Executives should assess whether their company is the best owner of an asset, or whether another party can create more value. In the latter case, the cash resulting from a divestiture could be reinvested in current focus areas, used to drive additional operational transformations or returned to shareholders. In the process of performing such analyses, management teams develop a strategic point of view on the evolution of the overall life sciences sector. As a result, companies are ready to proactively divest business units when the return is likely to be the greatest.
3. **Examine if capital allocation decisions enable optimal use of the balance sheet**

Management teams should regularly assess if there are potential benefits to altering dividend or share repurchase policies. Peter Wirth remembers when Icahn Partners launched a proxy campaign against Genzyme in 2010. Up to that point, Genzyme’s management team had never used its cash flow to buy back its stock because it felt it had more opportunity to create long-term value via other investment opportunities. But as part of its activist defense, the big biotech set aside US$2 billion to repurchase shares. “You definitely need to run the numbers to understand what a stock buyback would look like to your investors,” says Wirth.

Biogen’s Clancy agrees. “The golden rule of share repurchases is you buy when your market value is trading well below what you think the intrinsic value of the company is. Corporate America doesn’t do a great job at this. That’s because of perverse incentives that reward short-term earnings-per-share increases over long-term value creation,” he says.

Returning cash to shareholders also creates trust. “If a management group has a track record of regularly returning cash flow, there’s additional credibility. Investors will give the team the benefit of the doubt about its development choices,” notes Peter Kolchinsky, PhD, a managing director at RA Capital.

4. **Use milestones and/or “gating” mechanisms to improve R&D investment decisions**

Another way to build credibility with investors is to maintain, on a project-by-project basis, a relentless focus on return on investment for R&D programs. As Sarissa’s Denner notes in the accompanying Q&A, this means identifying – and then implementing – the strategy that yields the highest discounted cash flow to investors.

In 2009, activists took Biogen to task because the biotech, which had a world-class multiple sclerosis franchise, was investing heavily in oncology and cardiovascular programs in which investors had little confidence. That tension is a classic example of what economists call the “principal-agent problem” – management teams are charged with making decisions on behalf of shareholders, but are often incentivized to act in ways that don’t maximize value and are even in direct conflict with shareholders’ interests. As another investor put it to us, “What’s the point of a discounted cash flow model if the investor never gets the cash flow?”

As compounds wend their way from the laboratory to the clinic, not only do the development dollars grow, but analysts start to build future earnings expectations into their cash flow models. Add in the fact that management teams are typically rewarded for advancing, not killing, pipeline programs, and it’s not hard to see why R&D groups have a tough time shuttering programs when the data are inconclusive. “There is an inherent bias to believe a drug’s data are better than they really are,” says Denner. “It’s hard to be intellectually honest,” he says.

Achieving such honesty doesn’t require setting ROI thresholds that, if not met, would automatically trigger termination of the development program. We understand that even doing such an assessment is controversial given the imperfections of future cash flow models. However, we do see value in creating a conceptual framework that prioritizes decision-making at logical milestones. In creating the framework, companies have the opportunity to ask important strategic questions, such as:

- Does the product build on internal expertise in a core area of focus?
- Will the product change the standard of care or is the probability of commercial success threatened by changing evidentiary standards?
- Does the product have adequate intellectual property protection?
- Is it possible to shorten the development time through the use of biomarkers or other mechanisms?
Very rarely will the answers to these questions align favorably in a single direction. However, synthesizing the information in the context of economic metrics enables companies to make the most informed decisions they can at a given point in time.

In conjunction with this exercise, it is imperative that companies develop an organizational structure that empowers a limited number of individuals to make the difficult development decisions. This group must also be held accountable for their choices. Many larger biopharmas have already moved in this direction, creating small drug discovery teams organized by therapeutic area and with clearly delineated chains of command.

As discussed in EY’s 2014 industry report, Beyond borders: unlocking value, companies should embrace new technologies, including biomarker approaches and adaptive trial designs. Both strategies improve R&D efficiency by increasing the probability of success while simultaneously decreasing development costs and time to market.

5. Communicate relentlessly with investors about strategic decisions

Companies shouldn’t underestimate the importance of good communication skills. (See the accompanying article, “DRIVING disclosure effectiveness.”) At the management and board levels, firms need to be able to anticipate the hard questions shareholders will ask and provide credible answers that counter the underlying concerns. “Once you’ve done the strategic analysis, promote it in discussions with your investor base and the media,” David Pyott advises.

When speaking with large institutional investors, such outreach should include both the portfolio managers that buy and sell shares and the individuals that vote the shares in proxy campaigns. At many organizations, including the Vanguard Group and State Street Corp., these two groups are distinct. Proxy advisors such as ISS and Glass Lewis are also influential voices; these organizations advise on a range of matters that require shareholder approval. Yet, says Aisling Capital’s Purcell, biopharma management teams often overlook building relationships with this contingent even though doing so could prove worthwhile in the long run.

Management teams must challenge their internal assumptions about value creation and critically examine their businesses in order to create the greatest value for themselves and their shareholders. We believe the following five questions provide a helpful framework:

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Aligning with investors

At the end of the day, the best way to create alignment with investors, be they activists or not, is to treat them like customers. That means proactively reaching out to understand both investors’ needs and their criticisms. For companies that are underperforming relative to their peers, that will necessitate some tough board room conversations. It will also require challenging internal assumptions about value creation with an external perspective.

Our analysis suggests one managerial misstep can open the door to activism. The good news is companies can minimize this risk by adding rigor to their capital allocation and strategic decision-making before underperformance triggers scrutiny from an activist.

As David Pyott puts it, “Companies and boards should discuss strategic weaknesses. They must ask themselves, ‘If we were activists, what would we do differently?’”

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Appendix: Methodology and definitions

EY conducted a comprehensive analysis of all life sciences activism cases between 1 January 2006 and 31 December 2014. We collected data using Capital IQ and FactSet’s SharkRepellent. Additional details were confirmed by researching company-specific filings using the U.S. Security and Exchange Commission’s EDGAR database. In defining shareholder activism, we excluded certain activities from our data set as not representative: 1) 13-D filings with no publicly disclosed activism; 2) activist short-selling campaigns; 3) hostile M&As (e.g., Sanofi’s bid in 2010 for Genzyme or Roche’s 2008 overture to buy the outstanding shares of Genentech that it didn’t already own). In certain cases, different investor groups launched related campaigns within the time frame of an ongoing campaign. In such instances, we considered the activities as part of a single campaign unless the investors’ underlying motives were different. For consistency, we used the earliest 13-D filing date on record as the official start of an activist campaign.

To understand if the drivers of activism were changing over time, we assessed motives based on five parameters:

- **Capital structure**: Activism tied to the allocation of cash toward share repurchases or dividends, a company’s working capital or leverage
- **Operational performance**: Activism triggered by R&D investment choices, SG&A spend or tax structures
- **M&A**: Activism that blocks or promotes the sale of a company to a strategic investor
- **Business portfolio restructuring**: Activism that pushes for spin-offs and/or divestitures
- **Governance**: Activism linked to board independence and qualifications or executive compensation and incentive alignment

In many cases, activists sought to make governance changes to further different, primary objectives, such as the sale of the company or the divestiture of a particular business that was underperforming. In such cases, we categorized the campaign motive as M&A or business portfolio restructuring, not governance. In cases where there were multiple drivers of activism, we assessed each trigger individually so that we could develop a more complete picture for the causes of activism. In addition, lacking specific information about objectives, we classified campaigns that were “driven by an increase in shareholder value” in the operational performance category.

The following companies were included in the total shareholder return analysis (listed in alphabetical order by subsector):


Four companies in the above list were activist targets during 2013 and 2014: Allergan, Amgen, Forest Laboratories and TEVA Pharmaceutical Industries. Total shareholder returns for these four companies were used to calculate the median total shareholder return for activist targets.

Acknowledgments

**Project leadership**

Jeffrey Greene and Glen Giovannetti, EY Global Life Sciences Transaction Advisory Services Leader and Global Life Sciences Leader, respectively, provided the overall sponsorship and strategic vision for this project, guiding its development and editorial direction.

Ellen Licking, Senior Life Sciences Analyst, developed the report’s key themes and points of view. Ellen also helped research, conduct and draft the stakeholder interviews, guest articles and case studies that accompany this article.

Andrew Forman, Global Transaction Advisory Sector Resident in Life Sciences, developed the models to benchmark company performance and offered valuable feedback and analysis for the article.

Shyam Gidumal provided valuable insights, analysis and feedback for the overall report. He was supported by Mark LaRocque and Anne Board.

**Data analysis**

The research and collection of the shareholder activism data were conducted by Manish Sharma, Saurabh Garg and Rahul Agrawal. They also reviewed all data and analyses presented in the final version of the report. Ellen Licking performed the specific biopharma activism analyses. Andrew Forman and Jimmy Zhong conducted the analyses of total shareholder return and relative expense data.

**Editing assistance**

Russ Colton was the copy editor for this project.

**Design and layout**

Ryan Abbey and Eric Lontok were the designers for this project.
In 2013, Alex Denner founded the health care focused activist hedge fund Sarissa Capital Management. Until 2011, Denner worked for Icahn Enterprises, where he helped organize a number of different biotech campaigns, from ImClone Systems to Genzyme to Biogen. We caught up with Alex in the spring of 2015 to get his views on activism in the industry.

EY: We frequently hear the phrase “think like an activist.” What does that mean to you?

Denner: When we look at a company and its assets, we initially try to construct an entity that is optimally run for its shareholders. We are very focused on the long-term and improving operations, especially as relates to selling, general and administrative expenses and R&D. For instance, if a biotech has two marketed drugs, one in development and a certain amount of cash, we would model the best way to manage those assets to give the highest discounted cash flow (DCF) to shareholders. Next, we would compare that optimal DCF to the company’s current market cap. If there is a big difference, we get interested. To “think like an activist,” company managers need to subject themselves to the same sorts of analyses.

EY: How big does the difference between market value and intrinsic value need to be to trigger your interest?

Denner: We don't have a precise benchmark because it depends greatly on the underlying risk associated with the company and the probability of success. We typically look for an approximate return of 100%. However, if the risks are low and the probability of success is high, 25% upside might be okay. Still, we would typically seek greater upside.
Five years ago, people considered big pharma too large for activist investors. That sentiment feels less true now.

**EY:** Does that mean the currently high valuations for biopharma companies protect them from activists?

**Denner:** We see plenty of companies where the stock price has increased, but, boy, they are not run well. Some of the biggest companies in the industry waste billions of dollars every year. Five years ago, people considered big pharma too large for activist investors. That sentiment feels less true now. The only trouble is that the valuations of many big pharma companies are so high that there often wouldn't be significant upside if an activist did something. Still, there are definitely opportunities.

**EY:** Our analysis suggests that health care is one of the top sectors for activism. Why is that?

**Denner:** We do believe health care is one of the best sectors for activism because barriers to entry insulate biotechs from the competitive pressures that, in other industries, keep companies focused on return on investment. In the technology sector, for instance, a TV manufacturer must make a great TV at a great price to keep its market share. In the biopharma industry if another company tries to compete with a drug that is on patent, there will be a lawsuit. The long time scales for R&D and the large capital commitments make it very easy to lose track of the return on investment for projects. The mentality at the biopharma can default to "we've got this research program and we've got to continue it" even if the data suggest otherwise.

**EY:** In other words, there are cultural and organizational barriers that make it hard for companies to efficiently allocate their R&D spending?

**Denner:** I think there is an inherent bias to believe a drug's data are better than they really are. In early development, the team wants a drug to succeed because it is treating an unmet medical need and there are patients who require it. As the drug moves through development, the team working on it gets bigger and the development budget gets larger. At that point, R&D funding decisions are frequently made by committee and it's hard for an individual to stand up in a meeting and say "the data don’t look great. We should kill the program." Instead, since there is money flowing in the door, the tendency is to keep delaying the go/no go decision. It's hard to be intellectually honest.

**EY:** To foster this intellectual honesty, should companies make R&D judgments based on metrics tied to return on investment?

**Denner:** We think it's important to do DCF analyses for pipeline programs. The trouble is, for programs in early development, that DCF estimate could have a huge margin of error. Thus, I would never interpret these analyses with a false sense of precision – for example, discontinuing a program if the return on investment is 11.5 instead of 12. Instead, this should be an exercise that helps the R&D team make better capital allocation decisions.
David Pyott, the former chief executive of Allergan, is candid about the takeover attempt Valeant Pharmaceuticals launched in conjunction with the activist hedge fund Pershing Square Capital Management in April 2014. “It felt a little bit like December 1941,” he says.

It is not difficult to understand Pyott’s surprise. Allergan’s 2013 revenues grew nearly 12% year-over-year, while the company’s total shareholder returns jumped nearly 93%. Based on these metrics, not many would have labelled Allergan an “underperformer.”

True, the drug company may have been overly dependent on its flagship product Botox, which accounted for 32% of its 2013 total sales. Still, the injectable was growing at double-digit rates due to regulatory approvals in new indications. Moreover, the company had recently divested its underperforming obesity intervention business, freeing up resources for its other businesses, as well as for M&A opportunities. Were there things Allergan could have been doing better? Undoubtedly. But as one hedge fund investor noted, “It wasn’t a terrible situation. Of the companies out there, Allergan was one of the better managed ones.”

But drill down into Allergan’s income statement and it’s not hard to see how an arbitrageur could develop a rationale for why the Irvine, California-based company was an enticing target. In 2013, Allergan allocated 17% of its total revenue to R&D and 38% to selling, general and administrative (SG&A) expenses. As a percentage of sales, the R&D spend was definitely on the high side for a specialty pharma but not exorbitant for the biopharma industry overall. SG&A costs, meantime, were 13 percentage points higher than those of most specialty phamas. Given its US headquarters, Allergan also had an effective tax rate 8.5 percentage points higher than the overall average for specialty pharma/generics players, 85% of which are now domiciled overseas.
Allergan's above-average expenses were balanced by expectations of strong future earnings, particularly for its medical aesthetic and eye care franchises. Moreover, with roughly US$1.6 billion in cash on its balance sheet and a low debt-to-equity ratio, Allergan had a stockpile of financial firepower waiting to be deployed.

This scenario created an attractive opportunity for a strategic buyer with a lean R&D development model and an imprimatur to grow by serial acquisition: Valeant Pharmaceuticals. In his 22 April 2014 presentation to investors, Michael Pearson, Valeant's CEO, outlined the “financially compelling” results he believed would come from a merger, including US$2.7 billion in cost savings as a result of cuts to Allergan's R&D and commercial operations, as well as the lower effective tax rate that would likely result from such an arrangement.

But with a market capitalization roughly equivalent to Allergan’s, a balance sheet that was already heavily leveraged, and a target that wasn’t interested in selling itself, Valeant needed help. Enter Pershing Square, which had US$13 billion under management. In a separate presentation to investors, Pershing Square’s Ackman lauded “Valeant’s low-gross-margin mindset in a high-gross-margin business.” Based on a sum-of-the-parts analysis of the Valeant-Allergan combination, Ackman estimated the combined entity would need to trade at only 7.4 times its 2014 pro-forma cash earnings per share to eclipse Allergan’s unaffected share price. In other words, the likely return was worth the associated risks of an activist campaign.

Allergan’s Pyott acknowledges that investors might have viewed its high SG&A-to-revenue ratio as a weakness. He counters Allergan had “cogent arguments” for its decisions. “We had to create not only sales forces but market competencies,” he says.

However, as the activist campaign wore on, priorities within Allergan shifted from enabling longer-term growth to demonstrating nearer-term earnings. In July 2014, Allergan cut 13% of its workforce and optimized capital allocation via a plan known as Project Endurance. These steps were motivated by conversations with investors, who told Allergan and its board that if the company couldn’t demonstrate $10 earnings per share, Valeant’s offer was too enticing.

Pyott also admits the company should have looked harder at M&A opportunities prior to the spring of 2014. “In hindsight, we should have used the balance sheet more aggressively. We were trying to be disciplined,” he says. Indeed, had Allergan used some of its balance sheet to acquire a competitor – a move it attempted once Valeant's bid became public – it likely would have been out of Valeant’s reach as an acquisition target.

Instead, as a result of its high tax rate and SG&A-to-revenue ratio, there was a big enough gap between Allergan’s market value and its intrinsic value to attract a strategic buyer – and a shareholder activist. That Valeant didn’t succeed in its bid to purchase Allergan ultimately matters less than the fact that Pershing Square succeeded in putting the California-based company into play.

In hindsight, we should have used the balance sheet more aggressively. We were trying to be disciplined.

David Pyott
former Chief Executive Officer of Allergan
Historically, capital allocation and corporate strategy have been viewed as separate disciplines. Capital allocation defines a set of financial policies and tactics that help deploy the excess cash that a company generates and are the remit of the finance group. Corporate strategy, meantime, involves bigger picture decisions around what is the state of the industry and “where does a company want to play,” determined by the CEO, the strategy process and business development teams.

Senior management teams should recognize that this distinction is not only outdated, but ultimately, limiting. Capital allocation is an integral part of corporate strategy. The way a company deploys its capital can have a profound impact on the strategic direction of a company – both positive when implemented properly or negative if poorly implemented. At its most powerful, capital allocation represents the intersection of finance and strategy, with the goal of maximizing intrinsic value per share.

It is much easier to say than to do. Executives want a simple blueprint for how to optimally deploy capital. But such a specific schematic doesn’t exist. Senior teams have multiple options for how to invest their cash – acquisitions of various sizes and frequency and returning cash to shareholders in various forms – and the job of great management is not to get wedded to one or another. Executives need to understand that the tactics are not mutually exclusive. Depending on the company’s share price, its balance sheet, acquisition opportunities and organic pipeline, the right answer will vary. Capital allocation isn’t simply an art; it isn’t simply a science. It is a craft as well.
In the biopharma industry, capital allocation is also utterly tied to organic R&D. Unlike more traditional manufacturing industries, biopharma returns are driven not by considerations such as unit costs but rather by R&D productivity, which is rooted in a company’s expertise. Thus, the biopharmas that drive the greatest value and productivity from their R&D organizations are the ones that have the most options with respect to capital allocation. They can choose to deploy cash generated from new products in a number of ways, depending on the company’s specific objectives and its share price.

For instance, if the company’s shares are trading well below the believed intrinsic value, there is an opportunity to create value via share repurchases. Alternatively, if the organization believes it has differential knowledge relative to the competition, it may be worth prioritizing tuck-in acquisitions or alliances that set the stage for future growth. Similarly, as products from the company’s own pipeline meet internal R&D goals, the potential reinvestment in those assets must be weighed relative to externally focused endeavors.

Companies that don’t have strong scientific and development capabilities, however, have fewer options to create long-term value and may become targets of either strategic acquirers or shareholder activists. Thus, while biopharma executives don’t always make the link, great capital allocation is tied to the business’ core priorities and great execution behind the R&D engine.

Because R&D is so critical to optimal capital deployment and the time cycle is so lengthy, it’s good to create economic metrics of return on investment, even for early-stage pipeline products. What is really important is not the metrics themselves, but the process used to create them. We all know that discounted cash flow calculations come with a false precision. Therefore, the goal should not be to provide precise estimates for pipeline programs. Instead the analysis should provide additional information about the value of the program as it relates to the company’s overall strategy. For instance, in the act of developing valuations, biopharma management teams can take a step back and ask themselves the following:

- Does the product build on internal expertise in our company’s core areas of focus?
- Will the product change the standard of care or is it likely to be equivalent to existing products?
- Does the product have adequate intellectual property protection?
- Do rapidly changing evidentiary standards change the probability of commercial success?

As teams synthesize the answers to these questions, they should have a more complete understanding of the commercial viability of the molecule, enabling better business judgments.

These judgments should also tie back to the company’s overarching strategy. In an industry as diverse as ours, there is room for multiple strategies. Some companies may emphasize scale over R&D, while others may pursue very therapeutically focused R&D models. Whatever the strategy, companies need to make the capital allocation decisions that allow them to pursue their tactics to the fullest. In doing so, companies can maximize the long-term cash-on-cash returns associated with their investments.
As competition for market share increases in the life sciences space, companies understand commercial success is partially linked to achieving critical mass in a given therapeutic area or business. As a result, divestitures have become a hot topic in the executive suites of life sciences companies.

While management teams may recognize the importance of divestitures, understanding how best to effectively implement them is significantly more challenging. For instance, companies might choose to spin off a business, whereby a subsidiary’s stock is distributed to the parent company’s shareholders; alternatively, selling the business (including the stock of a subsidiary that holds the business) to a third party may lead to greater value creation.

Once companies have made the decision to spin or to sell, there are other nuances to consider. Depending on the parent company’s strategic objectives, a partial spin-off, in which the parent company retains a minority stake, may be more appropriate than a 100% spin-off, in which the parent company distributes all the shares of the new company to shareholders as a dividend. In addition, given the current public market environment, management teams must determine when an IPO represents a better option than combining assets with another interested party.

Each of these alternatives comes with trade-offs that must be considered, notably the potential tax implications of one transaction type over another. For management teams considering divestitures, it is important to first identify the assets that will be separated from the established entity. If the business being separated is a subsidiary that, historically, has operated independently (e.g., a stand-alone subsidiary), this separation may be straightforward and the tax considerations easy to address.

EY perspective
Understanding the tax implications of divestitures

EY perspective
Understanding the tax implications of divestitures

Marcellin Mbwa-Mboma
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However, if the goal is to carve out a piece of the business that heretofore was an intrinsic part of the parent company and/or its subsidiaries, the issues are far more complicated. This is especially true if the transaction involves cross-border operations. In such cases, life sciences companies must perform comprehensive tax diligence in each of the countries of operation. At a minimum, companies must understand where the assets reside from a legal perspective before the separation occurs and how the associated tax attributes are affected.

To create maximum value for the divestiture, companies may also need to realign parts of the business, taking into account potential tax implications prior to any separation. These pre-separation restructuring steps might include:

• Considering the movement of assets within the parent, including mergers, asset sales, etc.
• Determining the appropriate capital structure of the parent and the newly created entity, including the allocation of cash and debt between the two organizations.

As part of this pre-separation process, existing debt agreements must be reviewed to understand if covenants exist that might impede the parent company’s ability to perform additional transactions.

In certain cases, assets that are spun off may give rise to lower tax costs than assets sold to a third party. For companies based in the US, achieving such treatment is dependent upon the transaction satisfying specific Internal Revenue Code requirements, including:

• Prior to the spin-off, the parent company must have tax control, owning 80% of the voting shares of the spin-off. Following the spin-off, the parent company must relinquish this control.
• The spin-off must have a valid business purpose, and cannot be used as a “device” to distribute earnings.

Note that a spin-off that meets the above requirements but involves foreign subsidiaries may still subject the parent company to US tax on undistributed foreign earnings. In addition, a change of control in either the parent company or the spun-off entity can trigger a tax liability for the parent company if it occurs during a four-year period beginning two years before the separation.

For spin-offs that are ineligible for tax-free treatment, there are two different levels of taxation to consider. Shareholders may pay tax on the fair market value of the shares of the spin-off company they received. Additionally, the parent company may pay tax on the gain realized from the sale of the newly spun-off subsidiary’s shares.

As illustrated above, the tax considerations associated with a divestiture are complex. Life sciences management teams may decide on a particular strategy based solely on the opinion of a tax counsel. However, they could also seek further clarity from the Internal Revenue Service. While an IRS ruling can give companies greater confidence that a particular divestment meets the tax-free requirements listed above, preparing for an official ruling request might require significant time and money.

To determine whether a divestiture is aligned with the company’s strategic and financial goals, management teams should weigh their myriad options carefully before proceeding.
In today’s post-patent cliff, post-health care reform world, many life sciences companies are reexamining their strategic business priorities and looking for opportunities to focus their development and commercial activities in areas where they already have – or can build – market-leading positions. Intuitively, executives understand it is becoming difficult for companies to compete in arenas where they lack critical mass.

Actually forging that path is more challenging, however. Inertia prevents companies from carving out businesses from the parent organization. Not only are such activities disruptive to employees, but identifying which businesses or product lines have the potential to create the most value for the parent company is hardly straightforward. That’s because companies don’t generally capture their financial data in ways that allow them to easily assess the business implications of different kinds of carve-outs, whether they are business, geographic or product-specific.

Consider the following hypothetical example. A biopharma is considering divesting both the pipeline and marketed products of two different therapeutic areas. Based on historical sales data for the marketed products, the company has built reasonable models for the future cash flows associated with the product lines, taking into account expected R&D and SG&A costs. However, because of the way the company reports its financials, it may not have full clarity on certain regionally specific costs – for instance, expenses related to distribution, warehousing or R&D – that ultimately affect the return on invested capital associated with each of the two product lines. In the absence of this information, the management team can’t say for certain which business is more profitable than the other. This scenario puts the company and its shareholders at a disadvantage: unable to optimally plan which parts of the business it wants to divest and reorganize, the company cannot easily capture the full value from its restructuring efforts.

EY perspective

Creating value from carve-outs

Paul Hammes
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In today’s post-patent cliff, post-health care reform world, many life sciences companies are reexamining their strategic business priorities and looking for opportunities to focus their development and commercial activities in areas where they already have – or can build – market-leading positions. Intuitively, executives understand it is becoming difficult for companies to compete in arenas where they lack critical mass.

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Using a proprietary financial reporting and analysis tool called CARVEEx, EY helps biopharma companies implement leading practices from their portfolio rationalization and strategic planning initiatives. Working closely with management teams, we integrate and analyze company data in real time using software that can slice and dice the information from a number of different perspectives—for instance, by product type, geography or legal business entity. Because we update the analysis based on new or different assumptions, executives from different parts of the organization can model alternate scenarios based on rapidly changing market dynamics. The end result: having examined multiple deal scenarios simultaneously, clients can have greater confidence that the strategy they choose to implement will yield the greatest upside.

Sample screen image from CARVEEx, EY’s proprietary financial reporting and analysis tool.
As companies face increasing scrutiny from activists, clearly written, succinct and insightful financial reports have never been more important. Not only do these documents play a central role in communicating performance, strategic direction and risk exposure; they can also shift attention away from short-term performance measures in favor of the long-term viability of a company’s strategy – potentially fending off an activist’s challenge.

Effectively communicating messages related to enduring value creation is critical in the life sciences sector, given the sector’s lengthy R&D cycle, its mandatory regulations and the headline risks associated with brand reputation across global operations. A managerial misstep on any of these fronts could affect short-term revenue trends, investment levels and cost structure.

If done right, effective disclosures meet the varied demands of external stakeholders, enabling greater transparency on a range of financial and non-financial issues, from growth prospects to drug pricing policies. Ultimately, such disclosures boost a company’s reputation and promote investor confidence while at the same time maximizing shareholder value. If done wrong, however, disclosures (or lack thereof) can create significant uncertainty, increasing the likelihood of activist intervention.

With much at stake, it is important for companies to have a process in place to regularly review the effectiveness of their disclosures. Considering the breadth of key information required, the focus should be on the reporting process as a whole, rather than financial statement disclosures alone. An effective plan integrates the company’s processes, people, data and systems to serve a focused purpose, including addressing stakeholder communication more holistically.
EY has created a comprehensive, integrated assessment process, DRIVER (Disclosure and Reporting Integrated Value Enhancement Review), to help companies improve their disclosure effectiveness in the following ways:

- **DRIVER evaluates** current disclosures, both financial and non-financial, and related investor communications.
- **DRIVER identifies** and **recommends** process, content and/or system improvements, allowing for greater synergies between strategic, operational, financial and sustainability messaging.
- **DRIVER enables** the systematic implementation of leading-practice disclosure programs based on the distinct information needs of different stakeholders.

To learn more about how EY can help, see *Disclosure effectiveness: what companies can do now.*

An effective disclosure policy should be part of every company’s DNA

Effective disclosures enable highly effective market and investor communications. They also produce internal communications that are aligned with and promote a company’s strategic goals.
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How EY’s Global Life Sciences Sector can help your business
Life sciences companies – from emerging to multinational – are facing challenging times as access to health care takes on new importance. Stakeholder expectations are shifting, the costs and risks of product development are increasing, alternative business models are manifesting, and collaborations are becoming more complex. At the same time, players from other sectors are entering the field, contributing to a new ecosystem for delivering health care. New measures of success are also emerging as the sector begins to focus on improving a patient’s “health outcome” and not just on units of a product sold.

Our Global Life Sciences Sector brings together a worldwide network of more than 7,000 sector-focused assurance, tax, transaction and advisory professionals to anticipate trends, identify implications and develop points of view on how to respond to the critical sector issues. We can help you navigate your way forward and achieve success in the new health ecosystem.

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EYG no. FN0203
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