Territorial Licensing in Collaboration Agreements

Life sciences companies often turn to geographical licensing to realise the maximum value from their assets, and to ensure their products reach markets worldwide, particularly where they do not have a global footprint.

In the context of a collaboration agreement, the owner of certain intellectual property rights may collaborate with a licensee to develop a product, and grant such licensee the exclusive right to further develop and commercialise the product, but only in a specific territory. The licensor may reserve for itself the right to develop and commercialise the product in another territory, usually where that licensor has a presence. In certain cases, usually after much of the development of the product has taken place, the licensor may also grant additional licences limited to *other* specific territories to third parties, further dividing up the territory it had reserved for itself in the initial collaboration agreement.

The above deal structures raise many complex issues of coordination between the parties. Some of these issues in relation to geographical licensing in the context of collaboration agreements are:

1. **Product development**: if multiple parties are conducting activities in their own territories to develop a single product, high levels of coordination between those activities are required. No party will want the activities of another party to damage the value of the product being developed. Sharing results of development activities between the parties could avoid duplication of work, and help to ensure compliance with regulatory obligations. However, development results are costly to produce, and some parties may not be willing to disclose this information freely. The development work may also give rise to intellectual property rights, and the licensor will need to consider the degree of access it will need to those intellectual property rights.

2. **Regulatory authorisation and compliance**:
    a. **Pre-approval submissions:** the collaborating parties will also need to coordinate their submissions to regulatory authorities in relation to the product being developed. Inconsistent statements between such submissions must be avoided in order to protect the value of the product worldwide and ensure timely regulatory approvals can be granted.
    b. **Post-approval submissions:** once the product is on the market, each of the parties involved in its commercialisation will have reporting obligations to the regulatory authorities in their own territory. The parties will likely need to share information relating to safety and regulatory matters. If any additional licensees have been brought into the mix, the licensor will also need to consider whether all regulatory information

should flow through the licensor, or whether it should flow directly between these licensees.

3. **Intellectual property management:**
    a. **Patents:** licensees who are taking an exclusive licence under certain intellectual property in a territory – particularly if they are developing improvements to such intellectual property under a collaboration agreement – are likely to want control over the prosecution, maintenance, enforcement and potentially the defence of such intellectual property in their territory. Although this may relieve the licensor of the cost of maintaining the intellectual property in such territory, prosecution of patent applications, and defence of patents, must be coordinated worldwide to avoid inconsistent statements or actions. Such inconsistencies could impede the prosecution of a corresponding patent application, or diminish the validity or enforceability of a granted patent, in another territory.
    b. **Trade marks**: if a licensor licenses rights in a centralised trade mark to various licensees, care also needs to be taken to ensure licensees are restricted in their use of the mark. Licensees should be prevented from acting in ways that could damage the value of such trade mark.

The above issues are tricky to navigate in a collaboration agreement, particularly where significant development of the product remains to be carried out, and the identity of any future additional licensees remains unknown.

A carefully considered term sheet at the beginning of negotiations can help to ensure that all relevant issues are raised and discussed as part of an overall package, as well as avoiding any key issue being missed which could potentially derail negotiations at a later stage.

Building Flexible (and Sustainable) Laboratory Spaces For The Future

Flexibility provides the greatest value in laboratory space design for both owners and users of life sciences real estate. Science and technology are evolving at such a rapid pace that it is difficult to predict future needs. Bespoke spaces can become obsolete before they are even occupied. Spaces that can easily adapt to changing needs not only support the science long-term, but they can provide the most sustainable solution as well. Below we explore the various interests of investors, developers, owners, and users that must be considered; as well as how these concepts of flexibility and sustainability can be realized when creating a laboratory space.

What Are The Owner/Developer/Landlord Considerations When Designing and Building a Lab Space?

Owners and developers of real estate generally have to walk the fine line between seeking to attract maximum prospective tenant interest, through things like amenities and unique spaces, and creating the highest possible return on investment based on a projection of what the future holds. Life sciences presents a unique opportunity and challenge to create a space design that can adapt to the market.

What Are The End User/Tenant Considerations When Designing and Building a Lab Space?

From a tenant or end user perspective, if a group cannot perform its science in a space, there is no point to leasing it. It is also important to recognize that regardless of the tenant improvement allowance packages being provided by landlords, the cost to develop a lab can often dwarf the numbers being provided by the landlord and require a significant capital investment by a tenant. Another reality for life sciences users is the necessity to lease for growth. Given how quickly life sciences companies can increase their employee counts, having to plan for exponential growth year over year means more square footage for say, a year or two, while a company grows into a space. If excess space can be programmed for uses from a collaboration space to a laboratory, it would provide the user with the largest amount of flexibility for a company's long-term needs, which are often an unknown when a lease is initially signed.

How Does Technology Help in Integrating Flexibility Into Such Technical Spaces?

Flexibility and adaptability can be easily achieved in lab spaces by implementing a strategic approach to design. Planning for the future through building systems, support spaces, and a flex zone will offer the greatest value for all project stakeholders. Flexible lab furniture will allow the tenant to maximize a building's potential. Building systems are typically the largest investment on a lab project, for every stakeholder. Mechanical Electrical and Plumbing (MEP) systems account for 30%-50% of total construction cost, and it is vastly more difficult and expensive to retrofit MEP systems than to build initially. Thus, it is critical to design building systems that can support the long-term evolution of a facility.

Are Pre-Approval and Pre-Licensure Inspections Limiting Approvals During COVID-19?

In this post, we discuss FDA's conduct of inspections of

manufacturing facilities for new drugs and biologics during the COVID-19 pandemic. These inspections, known as pre-approval and pre-licensure inspections (PAIs/PLIs, respectively), are performed to give FDA assurance that a manufacturing site named in a new drug or biologics license application is capable of manufacturing the product according to current good manufacturing practices (cGMPs) and producing the product at commercial scale.

In **July**, FDA resumed limited domestic on-site inspections after temporarily postponing all domestic and foreign routine surveillance facility inspections in March. Since **June**, FDA had conducted only mission-critical domestic inspections. Currently, domestic on-site inspections are pre-announced and are prioritized on a newly developed rating scale that uses real-time data on the number of COVID-19 cases in a local area to qualitatively determine when and where it is safest to conduct inspections. Foreign PAIs/PLIs continue to be temporarily postponed unless deemed mission-critical. FDA may deem an inspection mission-critical based on a variety of factors including, but not limited to, whether the product has received breakthrough therapy or regenerative medicine advanced therapy designation.

In response to COVID-19, FDA has used, on a limited basis, various tools to conduct alternative inspections. These tools include the use of FDA's authority under Section 704(a)(4) of the FD&C Act, which enables the Agency to request records directly from facilities "in advance of or in lieu of" drug inspections. In addition, FDA has indicated that it may also look to records of recent inspections and information shared by foreign regulatory partners through mutual recognition agreements. And while the concept of virtual inspections has been floated, it remains to be seen if video-based or other virtual inspection strategies can be used to fulfill PAI/PLI requirements and how long such proposals may take to implement.

Worryingly, FDA explains in its **August 2020 guidance** that should the Agency determine that a PAI/PLI is necessary, and such an inspection cannot be completed during the review cycle due to restrictions on travel or other COVID-19-related risks, FDA generally intends to issue a Complete Response letter or may defer action. The guidance, along with a number of concerns raised quietly by sponsors regarding delayed inspections leading or potentially leading to Complete Response letters, paints a potentially ominous picture for drug and biologic approvals and the advancement of the public health over the coming months. Sponsors submitting marketing applications in the near-term would be wise to proactively prepare for discussion of alternative inspection approaches during the review of their applications.

Orange Book Listable?

 When submitting a new drug application ("NDA") with the FDA, an applicant (or branded company) is required to file a list of patents that cover the drug product.

These patents will be listed in the FDA's Orange Book upon approval of the drug for commercial sale. Patents that are eligible to be listed in the Orange Book are patents that have claims that cover the drug substance (active ingredient), the drug product (formulation and composition), or the approved method of use.

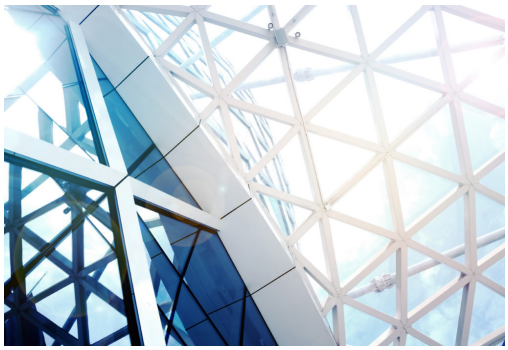
What patents can't be listed in the Orange Book?

Patents that have claims directed to the process or manufacture of the drug substance, to the packaging of the drug product, or to metabolites or intermediates of the drug substance are not eligible to be listed in the Orange Book.

Why pursue patents that are Orange Book listable?

Competitors seeking to market a generic version of the drug must certify for each patent claiming the drug or the approved use of the drug that (i) such patent information has not been filed; (ii) the patent has expired; (iii) the date the patent will expire; or *(iv) the patent is invalid or will not be infringed by the manufacture, use, or sale of the new drug for which the application is submitted.* Filing a paragraph IV certification can constitute an act of patent infringement and the generic company can be sued before even selling the generic version of the drug. If the branded company files the suit within 45 days of the notice of filing the certification, the FDA will postpone the generic drug approval for 30 months. During this 30 month period, the branded company and the generic competitor can litigate the patent dispute while the generic drug is barred from entering the market. If all patents are held invalid or not infringed, the FDA can proceed to approve the generic drug even if the 30 month period has not yet concluded.

Underwriting Life Sciences Companies: What Owners and Developers of Real Estate Should Think About When Entering the Life Sciences Market



The process of underwriting tenants can be complex at the best of times, even more so when you add the particular requirements of early stage and/or fast growing life sciences companies and a global pandemic into the equation. With that in mind, we have summarized a few of the key landlord considerations when underwriting life sciences tenants.

Understanding the science (where possible)

It is important to try both to understand the viability of a tenant's business/financial model and, where possible, to make an assessment of the value of their science. This allows landlords to better understand the background of a life sciences tenant and to seek to weed out, on their assessment of the strength or otherwise of their science, those which they consider may not have a sustainable business plan. Knowledge obtained from this exercise can also afford landlords the opportunity to capitalize on gains to be made in early investment perspective into life sciences companies by sitting alongside venture capital investors.

Understanding the source of capital

Life sciences companies are typically only funded for the next stage or two of their development. Landlords will need to undertake careful due diligence to enable them to understand how a prospective tenant is financed: is it venture backed? Does it get its capital from a foreign parent? Does it rely entirely on the strength of its science or its reputation for its pipeline of fundraising? Or is it financed in some other way? The source of capital and the security or availability of future financial support can make a significant difference from a financial underwriting and .

Protecting landlords from future financing difficulties

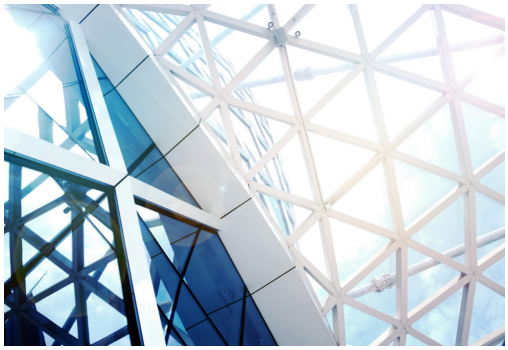
Landlords should keep in mind the fact that most life sciences companies will run out of money only a few years (or even sooner) into a 7 – 10+ year lease term and so security deposits and future sources of capital are essential. Whilst parent guarantees from venture firms are pretty much unheard of, to the extent that there is another source of capital available, landlords should seek out upper tier entity guarantees wherever possible.

Design considerations

Life sciences companies can have complex requirements in terms of the fit out of their space, some will need a bespoke, fully operational, laboratory and given the innovative nature of their work they will often demand a very high specification in terms of the security of their premises.

A key landlord consideration when reviewing large tenant improvement or specification packages is to make sure that the design of the space is going to be useful for second generation tenants. As noted above, life sciences companies can run out of funding before termination of their lease and so a space which can be easily re-purposed will be leased again more quickly and will require less investment in terms of future specification. Consequently landlords are becoming much more involved in the planning, review and approval of design modifications to ensure that their property will remain attractive to a range of future tenants.

Life Sciences Real Estate Clusters: US and UK Perspectives



Life sciences real estate clusters

Record investment in the life sciences sector has created geographic concentrations of interconnected life sciences companies and institutions, or "clusters," forming in key global locations, including the U.S. and the UK. The forming of clusters has been driven by a variety of factors, including a broad recognition that proximity between market participants can drive overall productivity. While it may seem paradoxical for a company to locate near its competitor, a deeper examination reveals that clustering creates synergies for all participants who can benefit from communal resources, regional trade, lobby and support groups, shared infrastructure and logistics channels, and a common regulatory and legal framework (and in some instances local tax incentives). In this way, life sciences real estate, or "**propsci**", is becoming more than just an operational decision for life sciences companies – it can provide a competitive advantage through strategic access to talent, funding, innovation, and shared resources. Not surprisingly, real estate investors are looking to capitalize on this trend, and we anticipate seeing a desire by a growing number of capital allocators, investors and developers to add propsci investments to their portfolios in key geographies.

U.S. perspective

The top 3 propsci clusters in the U.S. are (1) the San Francisco Bay Area, (2) Boston and (3) San Diego. These three markets have been the dominant clusters for life science companies and investors as well as for real estate.

Looking beyond the traditional "big-3" clusters, there are several secondary clusters that have attracted substantial capital and governmental investment and appear ripe for significant for more growth and in turn, propsci. Among these markets are places like Chicago, Philadelphia, New Jersey, and Baltimore. These locations share many of the same characteristics (and opportunities) as Boston, San Francisco and San Diego – well-regarded research universities, high-levels of private investment and governmental grants and a deep and growing talent pool to draw from.

UK perspective

In the UK, the "golden triangle" of London, Cambridge, Oxford, and surrounding areas is the most advanced of the life sciences clusters, where around 80% of all UK life sciences investment happens. This cluster is home to a diverse and large population consisting of academics, clinicians, leading universities, research centres, healthcare providers, innovative SMEs and startups, and large industry corporates, as well as fit for purpose real estate and infrastructure.

The golden triangle is followed by Edinburgh, Glasgow, Manchester and Nottingham, and more recently, Birmingham, Liverpool, Leeds and Newcastle, where there are also significant amounts of concentrated activity. These emerging destinations all have key ingredients for success – world renown universities in close proximity, great transport and infrastructure links, and a UK

Government intent on investing to rebalance the UK economy in favour of regional locations.