

What do you do when you notice a significant reduction in the royalty share of profit amount owed, you suspect the royalty amount is not being calculated as per the terms of the agreement, or you suspect your royalty partner is including cost incurred from products from other royalty agreements which is reducing the royalty amount you are owed?

Withum's royalty audit specialist can respond to your needs in a timely, cost-effective manner with expert royalty services.

LICENSING / PROFIT SHARING AGREEMENTS

The licensing agreement may contain different components, including the arrangement, based on the life cycle of the transaction – (R&D development, successful regulatory approval, technology transfer, and commercial launch). These components may include up front lumpsum and/or milestone related payments, technology transfer fees, and sales based royalty amounts. The sales based royalty amount computation generally involves identification of all key financial terms, proper definition of key terms (inclusion or exclusion of certain deductions), price adjustments and returns losses. More often the challenge to arrive at GAAP based sales involves management estimation which, depending on type of deduction, could be complex to estimate. Finally lack of proper automation, change in finance team, change in accounting principles, or lack of internal controls could lead to inaccurate computation of Gross Sales, Net Sales, Gross margin, Net profit — all of which forms key basis for royalty revenue/profit sharing criteria.

Our royalty audit team understands the key challenges in gross to net accounting. Through internal studies, prior royalty audit experience, risk assessment analysis, review of licensing agreements, research of the latest changes in government regulations, and detailed testing of gross to net accounting, we can help ensure your royalty partner is calculating the royalty amount owed in accordance per the terms of the agreement. We can also provide assurance that the royalty amount owed includes all the products referenced in such agreement including product extensions and new launches.



WE ARE AN INDEPENDENT MEMBER OF
THE GLOBAL ADVISORY
AND ACCOUNTING NETWORK



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WITHUM'S AUDIT APPROACH

Withum offers various consulting services relating to profit sharing agreements to companies for branded and generic pharmaceuticals as well as medical devices. Our services consist of the following:

Limited Scope Royalty Audit

Based on your budget and needs, we offer a limited scope royalty audit in which we focus our testing on specific gross to net items which compromise most of the reduction in the gross sales to net sales calculation. Our testing would consist of reviewing actual invoices, credit memos, payment support, and supporting schedules with calculations which we trace to the Company's general ledger as well as quarterly profit-sharing statements. We also review the licensing agreement to identify the key financial terms and ensure the quarterly profit-sharing statements are calculated in accordance with the agreement. Our testing also includes discussions with your royalty partner to understand the logistics and flow of goods as well as review of process narratives to understand the gross to net accounting.

Full Scope Royalty Audit

For clients requesting a first-time royalty audit or experience significant changes in the royalty amount received in the current year, we offer a full scope royalty audit. In this approach we perform testing on all the key aspects of the profit-sharing statement such as gross sales, inventory movement, gross to net items, cost of goods sold, and marketing expenses, if allowed for. We also perform the procedures referenced in a limited royalty audit scope but in our full scope we also include a detailed review of the closing accrual of the various gross to net deduction items to ensure there is no excessive accrual. Our testing would also ensure proper gross to net accounting for new product launches as well as price changes and sales adjustments which are common occurrences in the life science industry.

Gross to Net Training

Withum works to enhance our client's knowledge of gross to net accounting by explaining the key players in the process, the key gross to net terms, the key risk areas, as well as provide examples and case studies to complete. Our trainings can be tailored for every level of the Finance team from Senior Management to Staff as well as all decision makers that may have an impact.

LITIGATION APPROACH

Our royalty audit team aids legal teams as subject matter experts for licensing agreement disputes. Our services would include performing detailed procedures to validate the accuracy of the profit sharing amounts, quantifying the actual losses as a result of breach of contract, and procedures to validate whether a certain gross to net deduction item is deductible per the licensing agreement or not.



NEED MORE INFORMATION?

Contact a member of our team or visit withum.com to learn more.