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VALUATION

Real-Options Valuation for a Biotechnology Company

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Abstract

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pharmacokinetic parameters were determined by fitting the plasma concentration-time curves to a biexponential equation using the method of least squares. The terminal half-life ($t_{1/2}$) was calculated from the slope of the linear portion of the log-linear plot of plasma concentration versus time. The area under the curve (AUC) was determined by the trapezoidal rule. The mean residence time (MRT) was calculated as AUC divided by the dose. The MRT was also calculated from the terminal half-life and the distribution half-life ($t_{1/2\alpha}$) using the following equation: $MRT = t_{1/2} + t_{1/2\alpha}$. The elimination rate constant (k_e) was calculated as $\ln(2)/t_{1/2}$. The initial concentration (C_0) was calculated as $AUC \times k_e$. The volume of distribution at steady state (V_d) was calculated as $Dose/C_0$. The apparent clearance (CL) was calculated as $Dose/AUC$. The inter-subject variability was expressed as the coefficient of variation (CV). All statistical analyses were performed using SPSS version 16.0 software (SPSS Inc., Cary, NC, USA). A p-value less than 0.05 was considered statistically significant.

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Figure 1. The effect of the number of trials on the number of correct responses. The number of correct responses was significantly higher than the number of incorrect responses in all cases. Error bars represent the standard error of the mean.

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companies can use these methods to increase their understanding of the value of their projects and convey that value to investors. Finally, for academic readers, this case study provides empirical evidence of the usefulness of real-options valuation methodologies.

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