

MONDAY, MAY 21, 2007

The Downsizing Opportunity: Pipeline on the Cheap?



The *IN VIVO* Blog was in Michigan last week, attending a profiting-from-downsizing symposium.

Would Pfizer—we wondered at the Michigan Growth Capital Symposium--use its pull-out from the state (and the near-term freedom of some 2350 full-time Michigan-based Pfizer employees) as a way of pursuing an alternative research strategy—an experiment in externalization?

The venture world is all over Pfizer right now, looking for preclinical and clinical programs. And they'd particularly love ones that come wrapped with some of their key scientific supporters. Theoretically, we reasoned, the Michigan shut down could allow Pfizer to at least keep some of these researchers tied to the mother ship by letting them – on the VCs' dime – take ownership of programs Pfizer will be shelving. Meanwhile, Pfizer would get equity and some kind of option on the programs, should they prove interesting to its marketers. If uninteresting to them, the program still might prove commercially worthwhile, giving Pfizer a nice equity upside.

But from the discussions in Michigan, and subsequent chats with VCs, it's increasingly clear that Pfizer—despite an ongoing program to study how it should go about out-licensing or spinning off internal assets—isn't moving fast enough. Its best Michigan-based researchers will soon be working for other companies, including Pfizer competitors. And when they're gone so will be the best conduits to, and conductors of, Pfizer's unwanted research programs.

Not that Pfizer is uninterested in venture opportunities that provide it relatively low-cost access to interesting programs. But if our [Pfincubator post](#) is to be believed, Pfizer would prefer to win cheap access to programs it didn't create. That seems to be the intention behind its San Diego venture idea, in which Pfizer swaps infrastructure and capital for a start-up's equity and options on its research output.

Success of that program seems just a bit more likely than [an experiment at Novartis](#). Its pharma division's option fund aims to co-invest with other venture funds but get, along with its equity, an option on its investee's product. Since most VCs we know aren't in the habit of giving co-investors in a round a better deal than they get (in this case, Novartis would get equity at the VC price plus the option), we don't think this arrangement will get much traction. We're likewise skeptical that VCs backing the start-ups Pfizer hopes to woo to its San Diego facilities will be particularly happy about ceding product rights for cheap space and some cash. We'll be happy to be proven wrong.

Indeed, neither the Pfizer nor the Novartis venture adventure leverages its parent's real differentiable assets—de-prioritized research programs. And it is only with that kind of unique asset (money and space are commodities) that a drug company can create the opportunity to get both equity appreciation and pipeline help. Novartis in particular should understand the value here: its only major recent primary care launch, *Tekturna*, came about because a small, privately held company, Speedel, created a product out of a de-prioritized Novartis program—on which Novartis had kept an option.

Pfizer and Novartis aren't alone in their unwillingness to let start-ups take over assets on their shelves. Most companies won't. Pulling together all the relevant information is expensive, invasive, and potentially competitive. It actually took [the shutdown of all of its early-stage research efforts](#) for Procter & Gamble Pharmaceuticals to try to monetize some of its unrealized value. It's getting equity in a new Cincinnati-based spin-out, Akebia Therapeutics, which is developing two ex-P&G programs: an angiogenesis promoter (initial target: peripheral artery disease) and a Fibrogen-like EPO inducer. P&G also out-licensed two other programs—one for heart failure and one for atrial fibrillation, but these went to established companies, one large, one small.

But that doesn't mean pharma shouldn't do it – at least as an experiment in an alternative research strategy. Roche is the leader here—in deals, for example, with new companies, like [Synosia and Amira](#), based around Roche IP. Lilly has certainly done plenty of out-licensing to already existing companies, like Vicuron and Cubist, but its recent deal with Versant Ventures to exploit its [Chorus development division](#) is a big step in the start-up direction.

The real question is whether more pharmas will begin to take advantage of the enormous opportunity to experiment with virtualized R&D – at very little cost to themselves. With the [retirement of Pfizer's R&D chief](#) and its most senior opponent of out-licensing, John LaMattina, it's likely that Pfizer will reassess the strategy it's so far pursued. In that reassessment, they'll soon realize that if they don't provide some of the key research assets, they can't hope to get low-cost options on what the start-ups do with them.

Labels: [corporate venturing](#), [Novartis](#), [Pfizer](#), [Procter and Gamble](#), [venture capital](#)

POSTED BY ROGER LONGMAN AT 8:09 AM

0 COMMENTS:

[POST A COMMENT](#)