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Something out of (almost) nothing

Big Pharma's rejects are this firm's bounty

By Linda Loyd

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In the spring of 1999, Osagie Imasogie had an idea for a new kind of venture-capital firm.

Instead of investing cash in promising young companies, the "currency" would be the drug compounds and technologies that big pharmaceutical companies had abandoned.

That intellectual property may or may not be the next Viagra or Lipitor, but it could be of great interest to a smaller biotechnology firm.

A longtime pharmaceutical executive, Imasogie talked over his idea with a friend, Tachi Yamada, at SmithKline Beecham, where Imasogie had formerly worked. Yamada, now head of GlaxoSmithKline P.L.C.'s pharmaceuticals research and development, liked the concept, and urged Imasogie to set up an intellectual-property venture-capital fund within Glaxo.

In 2000, Imasogie established GSK Ventures. His first recruits were Lisa Gray and Zoltan Kerekes. Over the next four years, the operation did 30 deals - taking GlaxoSmithKline products and technologies that had been shelved for various reasons and matching them with smaller companies. In some cases, they created a brand-new company.

GSK Ventures made money for Glaxo. Payment often was not in cash - the traditional milestone and royalty payments that come from licensing deals - but an equity stake in the other company. "Our track record at GSK was very good in terms of doing the deals and creating multimillions for GSK in private equity and cash," Kerekes, a lawyer, said.

Now, the trio has taken that model and started their own Philadelphia intellectual-property venture firm, called Phoenix IP Ventures. They want to do for the broader pharmaceutical industry what they did at one company.

"When we started GSK Ventures, people said: 'It's not going to work. The assets don't have value if they are not being progressed,'" Gray recalled. "But we had a tag line: A crumb from an elephant's meal is a feast for an ant."

Ants are small biotech companies, and the crumbs are the drugs and technologies that large research and development organizations stop working on. Big companies often shelve technologies simply because they need to focus on new drugs that could be potential blockbusters, with \$1 billion or more in annual sales. Sometimes, a shift in corporate strategy or management leads to promising compounds being put in limbo.

Currently, the biggest companies in the pharmaceutical industry cannot invent new drugs fast enough to replace those losing patent protection, so they are increasingly licensing therapies from smaller biotech

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Products that have been spurned by big drug firms are being developed by Phoenix IP Ventures and partners (from left) Zoltan Kerekes, Lisa Gray and Osagie Imasogie.

companies. Biotech provides the compounds; Big Pharma brings the cash.

Phoenix IP Ventures wants to shake loose some of those unwanted assets in large and even midsize pharmaceutical companies, and match them up with smaller start-ups that would devote the time and resources to developing them.

Imasogie, Gray and Kerekas started Phoenix IP Ventures last June, and have Center City offices in One Commerce Square, 2005 Market St.

To date, they say they have more than a half-dozen clients, mostly midsize and smaller pharmaceutical companies that want to divest products, or acquire them. Phoenix acts as the go-between.

It can be tough to get Big Pharma to part with an asset. "There are committees you have to go through, personalities and a bureaucracy," Gray said. "Whereas smaller and midsize companies are focused on the bottom line and want to create value from their investment to reinvest into their core strategy."

One challenge Big Pharma faces in outsourcing assets is time and resources. It's no one's full-time job to do it. After companies pull the plug on a project, the scientists move on to the next one. Imasogie and his partners surmounted those drawbacks at Glaxo, and now use their experiences at GSK Ventures in discussions with potential Phoenix IP clients.

"We have a track record that most people do not have, of having successfully done this," Imasogie said.

Taking underutilized intellectual property and building businesses around it is not new, said David King, a former life-sciences lawyer at Morgan Lewis & Bockius and now chief executive officer of BioRexis Pharmaceutical Corp. in King of Prussia.

But King said what is unusual about Phoenix IP Ventures is its strategy of outsourcing a company's low-priority products and turning them into investments. Instead of selling the assets for cash, they took equity.

"They have uniquely powerful resumes behind doing this, and they are extraordinary people," King said. "If anyone could really make this into a successful business, they will."

King said he dealt with Imasogie and Gray in 2002 as a lawyer representing 3-Dimensional Pharmaceuticals Inc. when GSK Ventures licensed a compound. In exchange, GSK Ventures received an initial 500,000 shares and the promise of 1.9 million additional shares in 3-Dimensional once the compound achieved certain results. A year later, Johnson & Johnson acquired 3-Dimensional for \$133.9 million in cash.

Phoenix IP Ventures intends to get paid by taking a percentage of the equity in any deal completed. Other services it provides would generate cash to cover overhead and operating expenses. "But our inclination and preference is to do equity deals," Gray said. "We like upside. The value is in the equity."

The three founders put their own money into starting Phoenix IP Ventures, but would not say how much.

So far, their clients include: Topigen Pharmaceuticals Inc., Montreal; iCeutica Inc., Perth, Australia; and ZaBeCor Pharmaceuticals, Philadelphia, which is using technology from the University of Pennsylvania.

Another client is Innovation Philadelphia, a nonprofit economic development agency. Innovation Philadelphia plans to launch a program seeking donations - such as chemical compounds and technologies - from U.S. chemical, industrial and life-sciences companies. Those companies, in turn, would get a tax credit for making a philanthropic donation.

Imasogie said Phoenix IP Ventures will work to commercialize, and find a home for, those donated life-sciences assets. "We would get paid by taking a percentage of equity in the company where the asset is placed, and we'd give some back equity to the not-for-profit Innovation Philadelphia," he said.

Phoenix IP partners have talked with several large drug companies that have said they will allow the firm to evaluate certain compounds. "We have actually declined quite a number of assets. We are very selective with the assets we take forward," Gray said. "We don't get paid unless the asset is successful."

Phoenix does not have a Web site - intentionally - and its clients come through referral. "Relationships are very important for us. That's why direct introductions are very meaningful, as opposed to cold calls," Gray said.

Brenda Gavin, former president of S.R. One Ltd., GlaxoSmithKline's corporate venture fund, said the founders of Phoenix IP Ventures "have been around the block and they have good relationships with people at companies of all sizes. Whether you are investing money or products, it's a relationship business."

Given the "zillions of compounds out there" and the "staggering" amount of technology, even if Phoenix gets a small percentage, "they will have a nice business," said Gavin, now a managing partner at the life-sciences venture firm Quaker BioVentures Inc. "I think they have lots of potential."

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Off the Shelf and Into the Labs

Between 2000 and mid-2004, GSK Ventures did about 30 deals in which it took GlaxoSmithKline assets and placed them in smaller companies or started companies based on compounds and technology. Here are three examples:

Avera Pharmaceuticals Inc., San Diego. GSK Ventures created the company, gave it the rights to a series of neuromuscular blocking agents, and arranged for venture-capital firms to invest an initial \$16 million in cash. The privately held Avera has since licensed compounds from other drug companies and raised an additional \$48 million. GSK Ventures owns an undisclosed equity stake in Avera.

MerLion Pharmaceuticals Pte. Ltd., Singapore. GSK Ventures took the collected libraries of fauna, marine life, leaves, trees and barks of Glaxo Wellcome and SmithKline Beecham, and created the company, with the Singapore government providing cash. GSK Ventures received a combination of cash and equity in MerLion as well as the right to use the library to screen future Glaxo products.

3-Dimensional Pharmaceuticals Inc., Yardley. GSK Ventures supplied a compound to boost blood-platelet counts to 3-Dimensional, and received up to 2.4 million shares. In 2003, Johnson & Johnson acquired 3-Dimensional for \$133.9 million in cash.