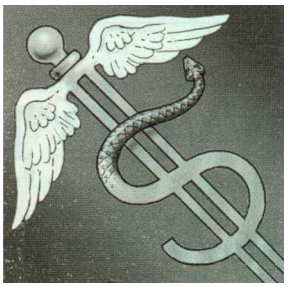
All pharma is local



When the Pfizer deal left Pharmacia scientists jobless, they started their own companies

by Andrew Morse

Jim McKim, the founder of **CeeTox Inc.** based in Kalamazoo, Mich., is an accidental entrepreneur.

The 44-year-old toxicologist spent six years running Pharmacia Corp.'s global *in vitro* testing facility, checking new compounds for evidence that they might harm, rather than help, the patients who would eventually get them. Because it's one of the most crucial elements of the drug commercialization process and he was happy at the company, McKim figured he'd most likely grow gray working for his employer.

But then **Pfizer Inc.** announced in July 2002 that it was buying Pharmacia. McKim and thousands of other scientists knew some of the company's operations in Kalamazoo would be shut down. With a Ph.D. and 15 years of experience, McKim, a direct but soft-spoken scientist, was asked if he would like to move to one of Pfizer's facilities in La Jolla, Calif., or Groton, Conn., where his education and skills would be as valued as they were in Kalamazoo. Recently divorced, he couldn't consider that option; he would lose custody of his three daughters if he left Michigan.

"I love my three little girls and I want to be in their lives for more than just a couple of weeks during the summer," he says. "So the main question for me was, 'How do I do a very specific type of science when the only company doing it here was leaving?'"

For McKim, the answer was to create CeeTox, a contract research organization that handles testing for pharmaceutical and biotechnology companies that need their products screened but don't have the scale or expertise to do it themselves. McKim, who recruited five members of his Pharmacia team to be the core of CeeTox, is not alone; with the help of Southwest Michigan First, a local nonprofit, dozens of former Pharmacia scientists are hanging their own shingles rather than looking for work under a new employer's roof.

Michigan is not the only region trying to woo the life sciences industry, which employs highly educated and highly paid professionals, who spend at other businesses and raise local tax revenue. New Jersey, long a natural location for aspiring biotechs because it houses many of the world's biggest pharmaceutical companies, earmarked one-sixth of the state's recently issued $60 million employment incentive bond to help seed biotechs. The Minnesota Bioscience Council is trying to tap $200 million from pension funds run by the State Board of Investment to help biotechs. The government of New Zealand recently decided to provide funds for a biotechnology industry group charged with boosting employment and revenue in the field.

None, however, has likely faced a problem of the magnitude Southwest Michigan First faces. Trying to prevent an exodus of scientists, SWMF has recruited attorneys to examine patents, drafted consultants to scrutinize business plans and served as a facilitator to arrange grants and loans from state agencies for fledgling enterprises. Already, the 5-year-old economic-development organization has helped more than 30 companies form and has secured funding for more than 10 of those. It's helped generate $400 million in investment in the area, creating 325 life sciences jobs alone.

Most importantly, it led the launch of the Southwest Michigan Innovation Center, an incubator that gives companies access to biotechnology infrastructure that would otherwise be beyond their financial reach. Located in Western Michigan University, the football-field-sized site houses more than five dozen wet labs, common-use autoclaves for sterilizing equipment and access to the university's animal laboratories and DNA sequencing capabilities. It also offers seminars on venture capital funding and business mentoring for its residents' staff, many of whom are first-time executives.

Behind the push is Barry Broome, SWMF's chief executive, who was recruited five years ago from a similar job in Toledo, Ohio. Back then, the leaders of Kalamazoo, which sits between the

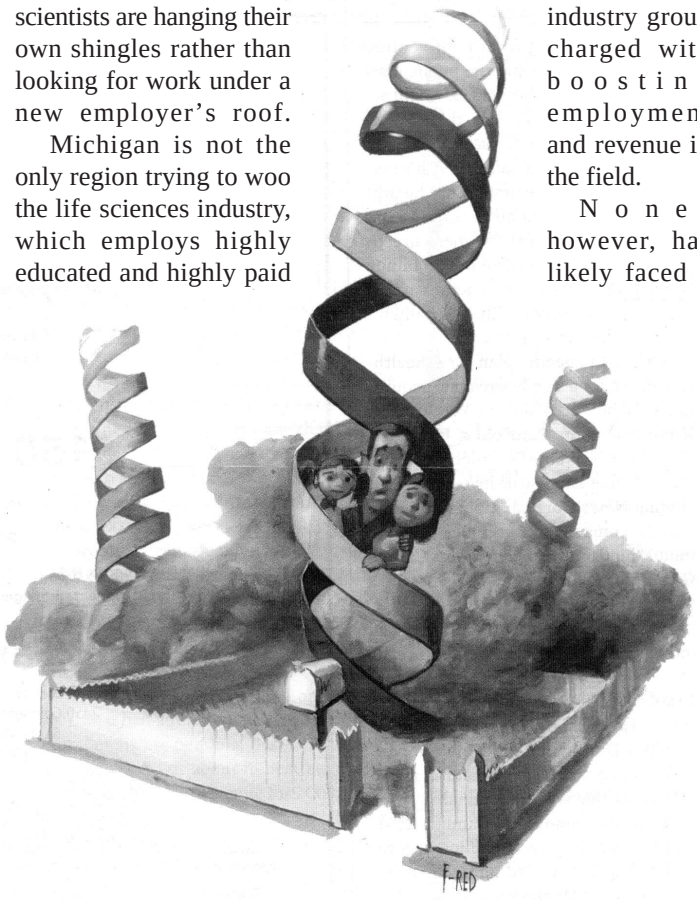


ILLUSTRATION *by* FRED HARPER

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skyscrapers of Chicago and the factories of Detroit, were trying to recast the city of 80,000 as a life sciences cluster with the scientific clout to challenge established centers such as Boston and San Francisco.

Outside the Midwest, that effort might seem overly ambitious for a city best known for rolling out Checker cabs and Gibson guitars. However, the Kalamazoo region is also home to some big life sciences companies. The **Stryker Corp**., for example, has been making some of the world's most widely used surgical equipment and implants for six decades there.

About 15% of the region's workers are employed by the life sciences industry, which generates close to one-quarter of greater Kalamazoo's wealth. Half of Michigan's life sciences industry is in the area.

> "The company is like a child. You really have to be careful"
>
> *Jim McKim*

The process of converting Kalamazoo into a life sciences hub was well under way before the announcement of the Pfizer-Pharmacia deal. Ironically, it was another merger - the 1995 merger of Kalamazoo-based Upjohn Co. and Sweden's Pharmacia - that prompted the city's leaders to craft an economy of highly educated, highly paid workers who didn't rely on one or two big employers.

Even post-merger, the Kalamazoo area housed the combined company's largest campus, employing almost 7,000 people. But the newly minted Pharmacia & Upjohn Co., underscoring that it was no longer a Kalamazoo company, relocated its headquarters to London. In 2000, Pharmacia & Upjohn merged with Monsanto Co. before merging once again with Pfizer.

The unyielding churn of M&A highlighted to city leaders how decisions made hundreds of miles away could affect the livelihoods of Kalamazoo residents. "From a regional economy standpoint," says Southwest Michigan's Broome, "we had too many assets tied up in a single company."

Bob Gadwood, a chemist for 25 years, including six in academia at Northwestern University, is one of those assets. Like McKim, he probably could have taken a job inside Pfizer or at one of its Big Pharma brethren. But Gadwood, 51, didn't want to leave Kalamazoo, which had been his home throughout his career at Pharmacia.

With a friend, who later became a partner, Gadwood began noodling with the idea of forming a company to take advantage of the skills of colleagues who would be out of work when Pharmacia started closing operations. The result was **Kalexsyn**, which plans to hire scientists to conduct medicinal chemistry for pharmaceutical and biotech companies as soon as it gets its lab, housed inside the Innovation Center, up and running.

Though he won't name them, Gadwood says he is lining up a roster of clients, including Big Pharma companies. "We've had enormous interest," Gadwood says. "Many smaller companies don't maintain in-house chemistry staff and while most Big Pharma have their own staff, they rarely have enough chemists to handle all of the projects they want to work on."

Gadwood didn't have to stay in Kalamazoo. He and his team could work anywhere, as long as they had access to overnight delivery services. Kalamazoo, however, had two things other sites didn't - trained personnel and support.

Drawing on the talent that Pharmacia was losing, Gadwood, who holds a doctorate and eight patents himself, assembled a staff of eight scientists, who are expected to sign contracts as soon as the lab is ready. They have, on average, 16 years of experience in medicinal chemistry. Each of Kalexsyn's three consultants holds a Ph.D.

Gadwood also tapped financial support. With no clear exit strategies, operations such as Kalexsyn don't attract much VC or private equity attention. Although a national operator will occasionally buy a regional lab, those working in such specific medical fields tend to be self-funding until they reach profitability.

Broome helped Kalexsyn assemble a business plan and had the founders apply for a loan from the Michigan Life Sciences Corridor Fund, money the state has created from part of the 1998 settlement with the tobacco industry. More than $50 million has already been put aside for use in establishing more life sciences companies in the region.

Kalexsyn got $192,200, which its founders had to match. "I'm making sure that they have some skin in the game," says Broome. "Part of what we're requiring is that they put in enough investment so that if it doesn't go well it hurts." The loan money, Gadwood says, should last about three months.

Over at the Jasper Clinical Research & Development, Edward Antal can see further into the future. The company he runs conducts the human testing that regulators around the world require before they will approve a drug. A Phase 3 test, the final stage of testing in the U.S. before submission to the Food and Drug Administration, can involve as many as 3,000 patients and take three years to complete.

Jasper's history extends to when Upjohn was a stand-alone company. Its scientists and clinicians had established contacts with regulators around the world and a reputation for thorough, rigorous work. It has a long-standing relationship with the Bronson Hospital, which houses many of the test subjects.

Jasper was also one of the units Pfizer had slated for closure. The huge pharmaceutical company had its own clinical research unit and cutting costs were a big part of the rationale for merging with

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Pharmacia.

Antal, however, thought it would be a mistake not to take advantage of the facility's standing. With three other Pharmacia scientists, he discussed the notion of combining the clinical testing facilities with a pharmaceutical consultancy. The idea was to use the revenue streams from in-progress tests, which would have to be restarted or replicated if interrupted, to fund the consultancy until it started generating revenues of its own.

With SWMF's assistance, Jasper got a $175,000 loan. The four partners, as required, kicked in their own money. The three-year business plan creates 46 positions and generates an annual payroll of $3.1 million. That's an average annual pay packet of $67,400, more than twice the region's 1999 average income of $30,600, according to statistics compiled by the Michigan Primary Care Association.

And they got support from an unexpected quarter: Pfizer. It gave Jasper a building that had previously housed Pharmacia's clinical research operations. It also gave the company a contract worth at least $20 million, part of it paid for in facilities and equipment.

"Pfizer never stopped doing studies here," Antal says. "That relieved some of the capital concerns."

In fact, Pfizer has contributed to several of the Kalamazoo startups, says SWMF's Broome, usually through expensive medical and scientific equipment the company will no longer need but which can save hundreds of thousands of dollars to companies counting pennies. "They've helped us with equipment," Broome says. "They've helped us with due diligence. And they've helped us by letting us pitch business to them."

CeeTox's McKim has also benefited from Pfizer's abandoned resources. Contacted one day in November, the scientist asked to reschedule an interview; he was busy "tagging equipment" with Pfizer staff. McKim's is highly specialized work that requires expensive laboratories. Pfizer has given the company about $1.5 million in robotics and cell culture equipment that it wasn't using. It took two trucks to haul it all to his lab.

CeeTox might not exist had McKim not heard Broome on a local rock station exhorting ex-Pharmacia scientists to become entrepreneurs. "He was saying the former Pharmacia scientists who had independent technology or specific skills should come in and talk to him," McKim says. "So basically I just went in and took advantage of it."

McKim went to a local Best Buy, bought a small business program and assembled a plan. It outlined a modest company that kept his Pharmacia team of six scientists together, but grows to employ 25 to 30 people over three to five years. The current team has a combined 100 years' experience.

Broome and a local business consultant, Tom Dammer, reviewed the plan. They liked it and helped McKim get the maximum $200,000 loan from the state. A group of angel investors contributed $275,000 and the founders anted up another $200,000.

When CeeTox went "fully operational" Oct. 27, it had already signed three contracts. Another six are pending. Based on contracts already signed or about to be, CeeTox projects $1.2 million in revenue for 2004.

McKim enjoys running CeeTox, but says the challenges of being father to a company are similar to the challenges of being father to his girls. "The company is like a child," he says. "You really have to be careful." ■