Life Science Leader

Connect. Collaborate. Contribute.

NOVEMBER 2017

LEADERS | EXCLUSIVE LIFE SCIENCE FEATURE

From Startup To Acquisition By Lilly, And Everything In Between

ROB WRIGHT Chief Editor @RfwrightLSL

Daniel Skovronsky, M.D., Ph.D., Lilly

In the first six months of Avid Radiopharmaceuticals' existence, it was hard to find the company on a map. That's because, according to the wife of Daniel Skovronsky, M.D., Ph.D., Avid was literally being run out of Daniel's car. "I did not have an office, and my wife would tease me that I *really* didn't have a company. 'It's just a PowerPoint presentation on your computer,' she'd say," he recalls with a laugh.

She wasn't wrong, considering most days her husband was spending almost all his time driving to appointments, showing his presentation, and asking for funding for an idea he had first hatched as a graduate student at University of Pennsylvania School of Medicine. It was the stereotypical entrepreneur's life, rife with those elusive and rare euphoric wins that inevitably are followed by a glut of letdowns and disappointments.

Skovronsky's story does (spoiler alert!) have a happy ending, though — that is if you consider $300 million a lot of money to be paid for a pharma company that, when started, didn't even have the license for the technology idea it was touting.

A New Approach To Identifying Alzheimer's

While at Penn, Skovronsky was doing autopsies and studying the brains of people who had died with Alzheimer's disease.

What To Consider When A Bid Is Made For Your Company

When Daniel Skovronsky, M.D., Ph.D., got a call from Lilly about the Big Pharma acquiring his company, Avid Radiopharmaceuticals, he knew it was a serious bid. He and his board of directors had previously discussed what amount they would consider in case such a call ever came, and Lilly was in that range.

There were other bidders, and although Lilly was ultimately chosen, it wasn't simply because they had the highest bid (they did not). According to Skovronsky, one of the biggest factors he and the Avid board considered was Lilly's reputation of nurturing, sustaining, and continuing to build companies after they were acquired. Some of the other companies admitted their plan would be to buy the company, disaggregate the team, and focus on the asset. Skovronsky thought hard about the various prospects and discussed them with his board. "I told the board that, essentially, we had three constituents. First are the investors, who will weigh the short-term up-front money of the deal versus the milestones and royalties down the road. The second group is the employees. As their boss and the person who convinced them to join the company, I wanted to make sure they had a good opportunity after the company was bought. Finally, there are the patients. We had to make sure the product and the technologies being developed were in the best hands capable of being successful. After all, our mission was not to just diagnose Alzheimer's, but to make it possible to develop treatments for Alzheimer's disease. That's how

He soon wondered if they could use medical imaging technology to detect for Alzheimer's while a patient was still alive. He and the team of academic investigators at Penn started with the same dyes they had been using to stain the tissue on a glass slide for microscope analysis. "We began doing chemistry to try to turn those dyes into a drug that we could then make radioactive and see in a brain," he explains. The goal was to develop a molecular imaging agent that could detect the presence of Beta-amyloid plaque — a defining pathology of Alzheimer's — in the brain. After a few years of research, the team applied for NIH grants to fund the work they were doing. "For whatever reason, the grants got denied. So, I said, 'We should start a company around this. Then we'd have tons of money,'" says Skovronsky. Of course, he quickly found out it wasn't going to be that simple.

A Catch-22

In 2004, before jumping into the deep end of the entrepreneurial pool, Skovronsky did his homework and talked to a lot of people in the industry. "Many pointed out how risky it was to start a company and how the majority of startups typically fail," he says. "I actually agreed and realized that many things could go wrong." And go wrong they did, starting with his initial plan of raising money, hiring staff, and licensing the technology.

Although Skovronsky was one of the inventors of the early-detection technology for Alzheimer's, at the time, its license still belonged to his employer — the University of Pennsylvania. He soon discovered that most investors weren't interested in committing if he didn't own the license. Similarly, Penn said once he got the money, they'd write a letter saying they'd license the technology to him. "It was like a Catch-22. In hindsight, I was pretty naive about what it took to actually start and run a company, and I was oblivious to how infinitesimally small my odds of success were."

$1 Million Is A lot Of Money — Until It's Not

After pitching a few VCs, Skovronsky learned they wanted to hear his exit plan, which he quickly summarized into three options— IPO, sell the company, or go it alone. Eventually, his pitch worked, and he received his first round of funding. "It was 1 million dollars," he reflects. "At that time I was working with my local neighborhood bank because it was close to my house." When he called the bank to see if the money had shown up in the account, he recalls the teller being flustered. "Yes, it's here, $10,000. Wait. No, no. What? Oh my gosh, it's *1 million dollars*!" she gasped. "I've never seen this much money in an account." It was then Skovronsky realized he was probably going to need to switch banks, which he eventually did.

"I remember thinking that with 1 million dollars we were guaranteed to be successful," says Skovronsky. "After all, a million dollars is *so* much money." Still, he soon learned he would have to raise a whole lot more.

For the next five years Skovronsky continued to raise additional money and, with his team at Avid, successfully took the amyloid imaging agent through clinical trials and towards FDA submission. It was during this time that Lilly had shown interest in acquiring Avid. But even a few months prior to his company being acquired, Skovronsky was still out pounding the pavement for funding, filing the company's Form S1 (used by companies planning on going public to register their securities with the U.S. SEC), dealing with bankers, and doing a non-deal road show (i.e., when an executive holds discussions with potential investors but nothing is offered for sale). The company also was filing its new drug application with the FDA — a massive undertaking, especially for a startup. Once Lilly started the due diligence process, Skovronsky was deeply involved in managing that, too. "Going to medical school, completing my residency, and pursuing my Ph.D. were a cake walk in comparison to being the CEO of a biotech," he says with a laugh. "It was not uncommon that I would work from 7 a.m. until 11 p.m., come home, go to sleep, and do it all again the next day, with lots of travel mixed in."

Just before the sale to Lilly in 2010, Skovronsky says he had raised around $60 million. "I thought *that* was a lot of money. But when we sold the company for $300 million [with potentially $500 million more in contingent milestone payments], I thought *that* was a lot of money." Today, the former CEO is now an SVP for science and technology and president of Lilly Research Labs at Lilly. "At Lilly, we invest about $5 billion a year in R&D. Now *that's* a lot of money."

Why Not Just Retire?

The sale complete, the entrepreneur had one thing left on his bucket list, which didn't include joining Lilly long term. "After being so busy for so long, I just wanted to make sure the drug we had been developing got through the FDA," he confides. Turns out, this was not going to be easy. About a week after the deal closed, the FDA informed Lilly they were taking Florbetapir (the name of the company's PET scanning radiopharmaceutical compound) before an advisory committee. A few months later the agency said they were not going to approve it.

> In hindsight, I was pretty naive about what it took to actually start and run a company.
>
> DANIEL SKOVRONSKY, M.D., PH.D.

Understandably, Skovronsky was nervous. He didn't want Lilly to think he had duped them, so instead of retiring to Hawaii or some other tropical location, he decided to stick around to make sure Florbetapir got approved.

It was during this time that he really got to know a number of Lilly's leaders. He spent a lot of time with John Lechleiter, Lilly's CEO at the time; Jan Lundberg, head of R&D; and David Ricks, then head of U.S. business (the current CEO). According to Skovronsky, all three were interested in understanding the facts and circumstances behind the FDA's denial, which helped provide a clear path forward. In early 2011 the FDA gave its approval.

Many people thought Skovronsky would leave Lilly after the FDA approval. But, during his early days at Lilly, he says he enjoyed learning about the other parts of the business, and he eventually took on more responsibilities. He explains that, as part of the deal he made with Lilly, "There were no golden handcuffs or strings of any kind. I got all my money in cash the day the deal closed, and it wasn't contingent on me continuing to run Avid."

Another question he gets frequently asked is, "Why are you still here?" "This was actually one of the most frustrating things asked of me during my first couple of years at Lilly," he concludes. "I understood their perspective, and it took me a while to earn their trust and confidence — and to prove that I actually cared about Lilly as much as they did." L

How Daniel Skovronsky Went About Valuing His Company For Sale

Even before Avid Radiopharmaceuticals was being courted by multiple – and larger – acquisition suitors, Daniel Skovronsky, M.D., Ph.D., the company's CEO and founder, had been trying to determine the value of the company. While Skovronsky admits he doesn't have an MBA, he says he has learned a lot about venture capital, valuation methods, and cash flows from his entrepreneurial experience. Thus, he wasn't inclined to simply leave this decision up to his banking partners.

"I *never* just say, 'I am going to leave that up to the experts.' If I don't understand something, I tell the person to teach me, as I will take the time to figure it out. Despite what the experts tell us, determining valuations, cash flows, etc. is not as hard as drug development," he says.

Skovronsky says one way to determine a company's valuation is sort of a past view, which he admits is the most primitive. "Basically, you put this much money to work, for this long, and your biotechnology investors need 'X' kind of return. It has little to do with the value created." Another approach is to look at a company's current stage of development, with what product, and with what kind of potential. "You try to look at companies that were in similar situations as yours, and compare similar transactions." A third way takes more of a future view. "Where do you think you will be five years from now, and what kind of revenue will you have? You assign a multiple to determine what you think it will be worth." He says Avid used pieces of all three methods