A picture of health?

With a production cycle lasting a decade and large conglomerates threatening to swoop, it can be difficult for family-owned pharmaceutical companies to remain both profitable and independent. Andrea Chipman talks to a select few – Roche, Boehringer, Servier and Stiefel – who have made it and learns their different strategies for success

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In 2006, the pharmaceutical sector saw another round of consolidation as industry giants gobbled up medium-sized players that had struggled to remain on their own.

The latest round of mergers has seen family-owned or family-controlled firms on both sides of the more noteworthy deals: family-controlled Merck swallowed Italian family-controlled firm Serono; another family firm, Altana AG, sold its pharmaceutical division to Nycomed Pharma Holding of Denmark; and, as *Families in Business* was going to press, family-owned Roche launched a $3 billion hostile bid for Ventana Medical Systems, which follows on from acquisitions of genomics firm NimbleGen and 454 Life Sciences earlier this year (see box overleaf).

So, what factors have enabled a small group of family firms to remain independent and solvent, and can the corporate strategies of this nominally altruistic industry be distinguished from those in other sectors?

Roche is a large public company that is still controlled by the Oeri and Hoffmann families, descendants of founder Fritz Hoffmann-La Roche. As one of the top 10 global pharmaceutical firms, with €25.4 billion of sales in 2006, Roche focuses on both pharmaceuticals and diagnostics, and is responsible for products targeted at a wide range of conditions, including influenza treatment Tamiflu and Valium, a treatment for anxiety disorders. What characterises the firm is an ability to balance the attention of the market with the desires and longer-term goals of the family.

Andre Hoffmann, a fourth-generation member of the founding family and the vice chairman of the company's board of directors, believes that the stability and consistency of family ownership is essential to the long-term growth of a pharmaceutical company.

"Stability is particularly important for the pharmaceutical sector because development cycles are so long," he tells *Families in Business*. "It takes about 10 years to develop a molecule from the lab to a product, and it helps if management is focused on developing new therapeutic needs rather than worrying about shareholder issues."

Top: Andre Hoffmann
Bottom: Christian Boehringer

This long timeline involved in getting drugs to market is a key factor that distinguishes the sector from other industries. The research and development operation required for pharmaceutical companies has increasingly meant that medium-sized and larger companies must achieve critical mass to compete.

But being committed to a strategy for the long term can't be underestimated when it comes to choosing research partners. "People coming with a new project who have a choice between publicly-owned companies tend to trust us because it has been rewarded in the past, and because they know we are unlikely to restructure the R&D department after the next financial results," Hoffmann says.

A case in point is Roche's 1990 acquisition of a majority stake in US biotechnology company Genentech, which now comprises around 60% of the company's shares. "It was a big gamble at the time for what was unproven technology," Hoffmann recalls. "We realised quite quickly that for it to be able to deliver on its promise, it had to be autonomous within the organisation."

As a result of its approach, Roche has found itself in a peculiar position. Genentech has produced some of the most successful and high-profile medical treatments to be unveiled over the past few years, including cancer drugs Avastin, Herceptin and Tarceva. At the same time, Hoffmann says, Roche's hands-off attitude to its San Francisco-based subsidiary has limited the extent to which Genentech's success has boosted Roche's own share price.

"A big bloc of Roche's valuation should be Genentech," he says. "Because we haven't integrated it, people don't see it as value accruing to Roche."

In a broader sense, family ownership can also give a company a leg up as far as corporate governance is concerned. At Roche, the board of directors, management and the family owners all participate in setting the framework for future corporate strategy; in most publicly-owned companies, by comparison, he noted, only the board and management are making decisions, with the result that the "long-term agenda is not as well developed".

At the same time, however, Hoffmann believes that family control can undermine the interests of a company if it pushes the company to grow faster than it is able to do out of retained earnings, or if the company is pushed to go to capital markets for funding.

"At no moment should a company or the family be in need of financing," Hoffmann says. "You don't want to be in a position where you are waiting for the next liquidity event." Such considerations are particularly important for a company focused on R&D and facing the constant pressures to keep drug pipelines ticking over, he adds.

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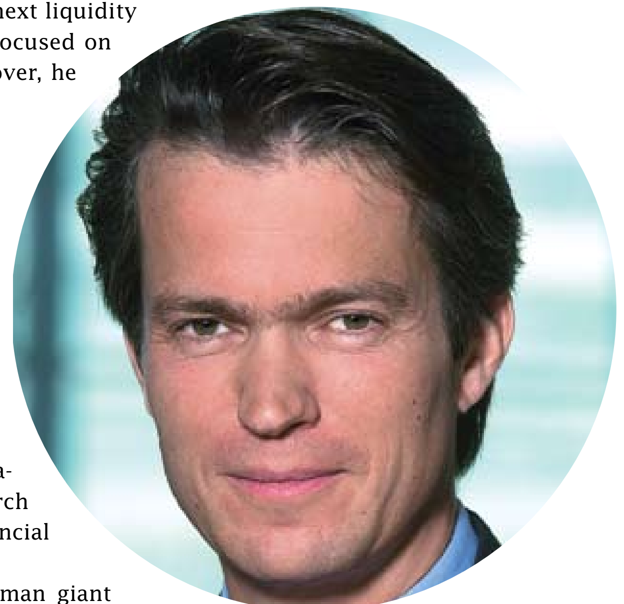
BIGGER BETS

The sector's fast pace of innovation – particularly in the biotechnology industry – continues to raise the stakes for larger companies, which are under pressure to take increasingly costly gambles to fill their R&D pipelines, according to Mike Ward, a pharmaceutical analyst at Code Nomura, Europe's leading investment bank focused on life sciences.

"You might have only a handful of products, and you're only getting one to the market. Maybe one in 10 would make it from getting through the clinical trials," he says. "Those bets are getting bigger and bigger because the resources are scarce."

Not surprisingly, therefore, a common value among family pharmaceutical companies is the importance of ring fencing strategic research goals from the demands of the market, in order to stop short-term financial horizons from intruding.

One of the largest privately-held family pharmaceutical firms, German giant



Top: Jacques Servier
Bottom: Brent Stiefel

Boehringer Ingelheim, competes with much larger companies, such as Astra Zeneca, Pfizer and GlaxoSmithKline, developing drugs to treat a host of conditions including hypertension, chronic obstructive pulmonary disease and HIV/AIDS. The company reported turnover of €10.6 billion in the 2006 fiscal year.

The Boehringer family has deliberately set itself against the consolidation tide by remaining committed to a long-term, independent future. While the company's supervisory board is run by Christian Boehringer, a fourth-generation member of the founding family, the family's influence over the day-to-day activities is kept at arms' length.

"One of the key things is R&D expenditure and continuity," said a Boehringer spokesperson. "If you have stable R&D, you can develop new products quicker than the competition." The byword of stability is apparent not just in corporate strategy, but in the company's workforce – a number of whom have spent decades with the company.

Boehringer has focused on the areas of cardiac and respiratory medicine and its research and development was up 16% year-on-year in 2006, compared with a 4.7% increase for Pfizer, the largest company in the industry.

"There's something about not having to worry about our numbers at the end of the quarter. If we were public, people would push us to enter into peripheral markets whereas for the time being we stay focused and enjoy staying focused on our niche"

Brent Stiefel

Independence has other advantages as well. In October 2006, Boehringer's consumer health business had the opportunity to purchase the US rights to Zantac, an over-the-counter indigestion medicine. The decision to buy the rights was taken in just a few days – something that might not have been as easy if the company had had to factor in the potential reactions of shareholders and analysts.

So, while some family firms clearly benefit from the lack of pressure from shareholders to actually deliver, "the basic industry parameters remain – the balance between the R&D pipeline, the agility to sell products that produce and patent expiry," according to Ward.

Equally, the same factors that influence the ability of some family pharmaceutical companies to remain independent – pipeline, patents and overall scale – have led others to throw in the towel. Altana, a German chemical company owned by the daughter of former BMW owner Herbert Quandt, sold its pharmaceutical unit to Nycomed last year after it was unable to find a strategic partner. Altana Pharma had previously suffered delays in two drugs in its pipeline, respiratory treatments Alvesco and Daxas.

Announcing the sale, Altana's chief executive, Nikolaus Schweickart, said that the combination of Altana Pharma's market strength and research power with Nycomed's development and licensing position would provide a "sustainable future for the new company".

VIVE LA DIFFERENCE

Another family firm, France-based Servier, has taken a riskier route to ensure its independence. The company's physician and pharmacist founder, Jacques Servier, decided that the traditional profit-making corporate structure wouldn't provide the company with long-enough time spans for its development of diabetic and anti-hypertensive medicines.

In 1963, just nine years after the company was formed, Servier began reinvesting all of its profits in research. A few years ago, Servier, who still runs the company that bears his name, turned it into a foundation, run by a committee. The reinvestment has helped the company accelerate its research partnerships and expand globally; in 2005–2006, Servier posted a 16.6% rise in turnover to €3.3 billion.

The company has generally maintained a strict focus on five main disease areas – cardiovascular, central nervous system and psychiatry, oncology, diabetes and metabolism and rheumatology – and has emphasised partnerships in the early stages of research with institutions such as the French National Institute for Health and Medical Research (INSERM) and the French National Centre for Scientific Research (CNRS). The focus has helped

RECENT TAKEOVERS INVOLVING FAMILY-OWNED PHARMA FIRMS

COMPANY	ACQUIRED	PRICE	DATE
Roche*	NimbleGen	$272.5 million	19 June 07
Eli Lilly*	Hypnion	$315 million	3 April 07
Roche*	454 lifesciences	$140 million	29 March 07
Stiefel*	Connetics Corp	$640 million	28 Dec 06
Eli Lilly*	ICOS	$2.1 billion	17 Dec 06
UCB	Schwarz Pharma*	$5.6 billion	25 Sept 06
Merck*	Serono	$13.3 billion	21 Sept 06
Nycomed	Altana AG *	$5.7 billion	21 Sept 06
Novartis*	Neutec Pharma	$569 million	14 July 06

** Family-owned*

Servier register 30 drugs in 30 years, while eschewing licensing agreements.

"I've never found the licensing situation to be very advantageous," says Jacques Servier. "You are generally subjugated to the politics of giving out licences. In the field of research, the most invaluable thing is to be independent."

SMALL, YET DISTINGUISHED

In the case of US-based Stiefel, the world's largest privately-owned dermatology company, access to sufficient funding and a lack of shareholders to answer to has helped the company remain privately-owned and keep its skin specialisation for 160 years.

"There's something about not having to worry about our numbers at the end of the quarter," said Brent Stiefel, the company's vice president for corporate development and a member of the sixth generation to be involved in the company. "I think if we were public, people would push us to enter into peripheral markets – women's health, pediatrics – whereas for the time being we stay focused and enjoy staying focused on our niche."

At the same time, the fact that the company is run by a small number of family members – father Charles is CEO and president while brother Todd is vice president in charge of global strategy – has given it the flexibility, in recent years, to expand into new areas that pose more potential risks for both the company and patients.

These new product areas include systemic drugs such as Soriatane, a medication for the treatment of psoriasis and albaconazole, a broad-spectrum antifungal medication. Both medicines can be administered orally, a departure for a company that had previously concentrated on more conservative topical treatments, and one that requires more complicated regulatory licences.

As a result of its expansion into this new direction, the company has had to make additional manpower investments to build its expertise in pharmaco-vigilance, and in late April announced it would spend more than $50 million over the next five years on a new research facility in North Carolina – not an insignificant sum given that Stiefel's annual revenues are around $1 billion, according to sources familiar with the company.

The company is sanguine about its ability to maintain sufficient funding into the future. "There's a lot of money out there and if you need to get your hands on some, you can do it," Stiefel said, adding that his company continues to pursue a growth strategy that includes licensing deals and acquisitions, as well as expanding organic expansion through its own pipeline.

He said the company remains confident that its strict specialisation enables it to differentiate itself from its only global competitor – Galderma, which is a joint venture between consumer giants Nestlé and L'Oréal.

"We really know our space and we're really good at it," he concludes. "There's always an opportunity to re-evaluate, but in general, our competencies lie in dermatology."

PLAYING THE LONG GAME

For the small group of family-controlled pharmaceutical companies that continue to operate in an industry dominated by giant, publicly listed behemoths, dominating a niche, making potentially risky decisions quickly and following a strategic time-span far exceeding both quarterly and annual results are the keys to independence.

At the same time, the companies share an emphasis on protecting R&D decisions from larger corporate financial considerations, and a common view of their missions as greater than just personal enrichment for shareholders.

With biomedical innovation heightening competition and pressures in the sector with little respite in sight, this group of survivors is betting it will buffet the prevailing M&A storms to see in the next generation. ●

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