

Forest Laboratories: Finding Ways to Bring Drugs to Market — Fast

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Giant: Pfizer

Shadow Success: Forest Laboratories, Inc.

Pfizer market cap: \$96.56 billion; revenues: \$47.3 billion

Forest Laboratories market cap: \$7 billion; revenues: \$3.85 billion

It may have started as a chemist's laboratory in Brooklyn, but Pfizer has a product somewhere in every medicine chest. Since introducing its first product, a chewable compound for intestinal parasites, Pfizer went on to provide drugs such as morphine and iodine



that helped

the Union win the Civil War; brought the world antibiotics in the 1950s; and today markets such blockbusters as Viagra, Zoloft, and Lipitor. This is a company that has the lab-to-market process down, a process that is tedious and slow. "The big pharmaceutical companies like Pfizer are thorough, they have plenty to spend on testing and marketing, they can scale up production; but what they don't do well is get things out there fast," says Fred Geyer, CEO of Prophet, a brand management firm. "That leaves room for smaller companies to succeed if they can focus on speed and cost."

Which is exactly what **Forest** does. Forest's strategy is to identify drugs that are in the late stages of testing or are already available in Europe so that the company can take them to the United States and usher them through U.S. Food and Drug Administration (FDA) red tape in record time. Forest strikes partnerships, forms collaborations, negotiates licensing agreements — anything to get a drug to market fast.

Take the September 2008 launch of the beta-blocker Bystolic (nebivolol). Nebivolol was developed and owned by Janssen Pharmaceutica of Belgium, which made it popular in 50 countries outside the U.S. Then the drug was tested in the U.S. by Mylan Bertek Laboratories. Mylan, which had licensed U.S. and Canadian rights to nebivolol in 2001, sublicensed them to Forest for a one-time payment of \$75 million plus milestone payments based on royalties. This deal gave Forest the chance to exercise its marketing muscle to distribute a proven drug with a large potential market. Nearly one in three American adults has high blood pressure, and studies show Bystolic has fewer side effects than its numerous competitors, which include Inderol and Coreg.

"It takes billions of dollars over many years to develop a new drug, and the success ratio of products that make it from early stage research to market is very small," says Gary Nachman, director of

specialty pharmaceuticals for Leerink Swann, a healthcare investment bank. “So making these deals is a very risk-averse strategy to get products into the pipeline.”

Nachman explains it this way: With an initial investment of \$50 million to \$75 million, Forest gets a new product into the pipeline, with additional investment necessary only if the product is successful. If the product fails, Forest is out maybe \$100 million; if it's successful, the company makes far more than its investment in royalties and milestone payments.

In the past decade, Forest's success was fueled by two blockbusters: the antidepressant Lexapro and Namenda, a drug for patients with Alzheimer's and dementia. But the drugs' patents expire in 2012 and 2015, respectively, opening the door for generics. So for 2010, Forest is doing what it has always done well: boosting R&D spending to fuel a host of collaborations, partnerships, and buyouts, and looking throughout Europe to fill the company's pipeline with drug candidates well along in development.

That's how Forest landed Lexapro, which it bought from Denmark's Lundbeck, and Namenda, which it acquired from Germany's Merz. “Forest started out as a sales and marketing company, and they've got a really strong primary care sales force,” Nachman says. “So if you're a European company with a product you'd like to release into the U.S. market, Forest is going to be your in-license of choice because they've already demonstrated they can go up against the big pharmas in a major consumer market and succeed.”