Dendreon Wounds Are Self-Inflicted, Not the Start of a Biotech Industry Virus

Luke Timmerman8/8/11Comments (15)Follow @ldtimmerman

Dendreon has made its share of mistakes before. But last week, the Seattle cancer drug developer achieved the biotech equivalent of fumbling the ball on the 1-yard line with time running out on the clock. The failure was so painful, so shocking, it **erased two-thirds of the company's stock value**—about $3 billion. It even started a "**Dendreon flu**" that dragged down biotech stock indexes.

There are plenty of reasons for investors to be nervous, with Uncle Sam's **credit rating** in question and unemployment running high. Times of anxiety in the market tend to be bad for high-risk sectors like biotech. And sure enough, many biotech investors have run for the exits, worried that Dendreon's flop is a sign that other high-profile biotechs are doomed to fail. But that would be an overreaction. Investors would be wise to write off the Dendreon story as a case of a fine mess at one company, and not really any great cause for industry-wide concern.

I've been covering Dendreon (NASDAQ: **DNDN**) for 10 years, and have seen some

incredible ups and downs. Very little about this story surprises me anymore. But while writing over the weekend, three days after disaster struck, I'm still slack-jawed about this colossal choke. Heading into last week's second-quarter **conference call**, the company had forecasted it would generate $350 million to $400 million in sales this year of its immune-booster for prostate cancer, sipuleucel-T (Provenge). But the company recorded $49.6 million in sales in the quarter ended June 30, plus another $19 million in the month of July, which was "substantially" lower than its internal projections, according to CEO Mitch Gold on the call. So Dendreon withdrew its sales forecast and didn't provide any other financial guidance, other than to say it expects "modest quarter-over-quarter" growth.

If you assume "modest" translates into 5 percent quarter-over-quarter growth the rest of this year, then Dendreon could generate about $185 million in sales this year. That's a long way from $350 million to $400 million. And the problems leading to the shortfall, Gold said, are expected to last into 2012. It's anybody's guess how long it might take to fix Dendreon's situation, if it ever happens.


Mitch Gold

It's truly a stunning fall from grace. Dendreon is now planning to cut costs, and make layoffs, in weeks to come. Analysts, who had drawn up models that had Dendreon eclipsing $1 billion in sales, suddenly had to go back to the drawing board. Cory Kasimov of JP Morgan, a Dendreon bull, slashed his 2012 sales forecast from $841 million all the way down to $388 million. "This was obviously a crushing blow to our overweight thesis and one that we certainly did not see coming. We don't think anyone did," Kasimov wrote in an Aug. 4 note to clients.

The official explanation for what went wrong makes you slap your forehead in disbelief.

Essentially, Dendreon said most of its physician customers are afraid they won't get reimbursed by Medicare, or they won't get a timely reimbursement, meaning they'll be stuck holding the bag on a drug that costs $93,000 per patient.

It is shocking to hear Dendreon say this in August 2011, given how much time it had to methodically block and tackle on this fundamental question. From the minute that Dendreon **won FDA approval of this new product in April 2010**, it had two mission-critical tasks in front of it—manufacturing and marketing. The first challenge was about proving it could manufacture enough of its first-of-a-kind treatment—which stimulates a patient's own immune cells—to meet the demand from thousands of prostate cancer patients around the U.S. Dendreon had time to work on building up manufacturing capacity, because the market recognized it would have been irresponsible to spend hundreds of millions on that prior to FDA approval. The second challenge, sales and marketing, was mainly about persuading legions of urologists and oncologists to **prescribe the groundbreaking new therapy**. Processes needed to be established to ensure the company would get paid in an efficient and timely way, doctors would get reimbursed from insurers, and patients would have easy access even when they couldn't afford the co-pays.

The sales and marketing effort ran into trouble right away, when Dendreon overreached and set the price for its product too high—at $93,000 per patient. Analysts at the time of approval were only expecting a price of **about $62,000**, so Dendreon didn't need to go that high. The company argued, **… Next Page »**

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Single Page Currently on Page: 1 **2** **3**

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correctly, that Provenge was priced in line with other cancer drugs that have shown a similar ability to prolong lives. It also reminded people on many occasions that it spent 15 years and $1 billion on this very big roll of the dice. Basically, it was time to recoup that investment.

But there was a major downside to being that aggressive on price. Dendreon had spent years roiled in controversy about how convincing its clinical trial data were. Not even an FDA approval silenced the doubters. The high price further galvanized opponents in academia and their friends on Wall Street, who questioned whether the drug was worth that much for only a median time of another four months of patient survival. Sure enough, three months after FDA approval, the Centers for Medicare and Medicaid Services opened up an unusual process known as a **national coverage analysis**, in which it sought to review whether it ought to reimburse doctors for this new treatment, and if so, under what

circumstances. Coming a few months after **President Obama's healthcare reform law passed**, people wondered if this was some kind of stealth price control move by Medicare, and whether Dendreon would become the sacrificial lamb.

Much of that uncertainty was supposedly laid to rest last November, when **Dendreon persuaded an expert advisory panel** that clinical trial evidence supported the company's claims about the drug. The Medicare agency followed up on that hearing by issuing **a draft opinion in March in favor of Provenge**. By the time the official National Coverage Determination (NCD) was **etched into federal policy on June 30**, reimbursement was considered a fait accompli on Wall Street. Dendreon had prevailed, the question was settled. Time to move on.

Or so we thought. While Dendreon spent much of the past year pooh-poohing the impact of the Medicare agency's review, saying regional Medicare units were reimbursing docs in the interim, a more worrisome side of the story emerged on last week's conference call. While regional Medicare units had been reimbursing doctors who prescribed Provenge for the past year, that was apparently happening under very strict criteria for certain patients—not the broad group of people who are actually eligible under the FDA-approved prescribing information. That created a lot of hassles, and confusion among doctors about exactly which patients were eligible for reimbursement. And just as doctors learned the ropes of that arcane process, they are now being told that the patient eligibility rules and financial reimbursement processes are changed again, to make things smoother. Trouble is, only about one-fourth of doctors have gotten the message in the past few weeks, Dendreon said.

Looking back now, the national Medicare review "really did create headwinds for us over the last year. We now need to educate physicians that it's gone away," Gold said on the call.

Even if Dendreon does a great job now in getting the word out about smooth sailing at Medicare, doctors aren't necessarily going to line up and start prescribing Provenge a lot. That's because even though Dendreon priced its drug like comparable cancer drugs, there's an unusual "cost-density" with Provenge that puts physicians' necks on the line. As with many cancer drugs, once a doctor prescribes Provenge, he or she has to buy it, typically using their own private practice checking account. Since Dendreon's drug is given through three infusions in one month, doctors have to shell out for a full $93,000 bill for giving one month of infusions to one patient. Other costly cancer drugs run up big tabs over many months, or even years, meaning that doctors can spread out the pain of reimbursement uncertainty.

Shockingly, Dendreon said on the call that it wasn't really aware of how far and wide the reimbursement anxiety extended among small community-based physician practices until very recently. What that essentially means is that the company admitted it didn't really understand a vitally important segment of its customer base very well, even after it was a full year into a product launch.

Things didn't have to turn out this way. If Dendreon had priced its product more modestly, **… Next Page »**

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Single Page Currently on Page: **1** 2 **3 previous page**

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like around $65,000 to $70,000, the company could have still made plenty of money. There would have been much less grumbling among patients, and doctors. I'm willing to wager that Medicare never would have bothered to open up that messy yearlong reimbursement review.

But even if you assume Medicare had Dendreon in its crosshairs no matter what, the reimbursement problem could have been better managed. Dendreon's sales team had precious months this spring in which it could have explained to doctors that specific changes were coming down the pike. They certainly could have spread the word, with specific instructions, since the official decision came in writing on June 30.

Dendreon has some bright and capable people on its management team, but this series of blunders makes you wonder who's minding the store. Even though this was one of the most anticipated cancer drug debuts in recent years, the company didn't hire

a senior vice president of sales and marketing until **three weeks** before the FDA approval arrived in April 2010. Many companies have a person like that on board, along with key lieutenants, at least a year before a product introduction.

The senior vice president of sales and marketing who was hired late in the game, Varun Nanda, looked like he had the perfect resume for this job, having worked on cancer drug sales and marketing at Roche's Genentech unit. But seven months later, **Nanda was gone**. No official explanation was given for the departure of this executive in a critical position. Then the position—which ought to be one of the plum marketing jobs in all of biotech—remained vacant for six months. Now Dendreon said it has a new SVP of commercial on board, Robert Rosen, who Gold said has experience marketing major cancer drugs like trastuzumab (Herceptin) and sorafenib (Nexavar).

Rosen has his work cut out. Even if he and his team do a great job of explaining to doctors what the deal is with Medicare, those doctors are not taking Dendreon's word for it, Gold said. They will want first-hand evidence, on a patient-by-patient basis, to prove that they will get reimbursed, before they get comfortable prescribing multiple patients in a row, he said.

Gold, who's trained as a urologist, should have been able to see some of these concerns coming a mile away. When Dendreon says it didn't really foresee how skittish urologists might be about reimbursement, it rings hollow. Equally galling, the company kept referring to how it didn't see this coming because it only recently started moving beyond the top academic centers and pitching its drug to smaller, community-based urologists and oncologists. The billion-dollar sales projections always **depended on wide adoption by community physicians**. It's hard to believe Dendreon could have been so far out of touch with the needs of their practices.

There were lots of moving parts to the Provenge launch, and Dendreon appears to

have executed well on important aspects like manufacturing and supply chain logistics. But when you're touting a company into something worth $5 billion, and hiring a staff of 2,000 people around the country, there are no excuses for major stumbles like this.

Given all the mistakes Dendreon has made, and the unique profile of its infusion-based medicine, I don't think it means other companies are doomed to follow its lead. Just this year, Bristol-Myers Squibb successfully **rolled out** ipilimumab (Yervoy) and Vertex Pharmaceuticals **nailed its launch** with telaprevir (Incivek).

Since this is biotech, and it's a risky business, there will always be companies like Dendreon who let big opportunities slip through their fingers. But there are also companies out there proving they can hang onto the ball, and drag a couple of tacklers into the end zone at crunch time. Let's all hope investors can still see the difference.

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Single Page Currently on Page: **1** **2** 3 **previous page**

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Pfizer's Idea to Fix the Drug Development Crisis, Which Probably Won't Work (But Just Might)

Luke Timmerman6/20/11Comments (9)Follow @ldtimmerman

Big companies love acronyms, and Pfizer is no exception. So when I heard the world's biggest drugmaker talk about using its CTI network to validate POMs, it sounded like some Dilbert-style, soul-crushing initiative going nowhere.

Writing off this latest initiative would be the safe bet, as many have tried and failed to revitalize the unproductive business of early-stage drug development. After taking a closer look at Pfizer's big new alliance with eight of Boston's leading biomedical research centers, my guess is there's a 90 percent chance it won't work. But it is a clever strategy that balances the interest of all parties, and if executed well, it could change how drugs get developed for the better.

For those just tuning in, Pfizer made headlines earlier this month when it established a new Center for Therapeutic Innovation (CTI) in Boston, which represents a five-year, potential $100 million investment in early-stage R&D. This is the third such agreement

Pfizer has formed in the past year, following similar deals with academic centers in San Francisco and New York.

Pharma collaborations with academic institutions aren't new, but these Pfizer deals do establish new rules of the road. In the old days, a big drug company with a shiny headquarters far away would pour in some money to support basic research. The scientists looked at Big Pharma sort of like Uncle Sam, as just another rich benefactor to hit up for cash. Once the checks arrived, the scientists would explore the way genes and cells work. When they learned something important, they'd publish it, and move on to the next exciting problem.

The Big Pharma company, in return for its largesse, would usually get a chance to license any inventions from the academic lab that could lead to new drugs. But rarely did any new drugs come out the other end. The drugmakers often saw esoteric advances of knowledge, or half-baked ideas that couldn't be reproduced. Sometimes the company would make headway for a while, until corporate priorities would shift, leaving once-promising drug candidates sitting on a shelf.

But now it's clear that Pfizer, despite all its well-documented problems with patent expirations on aging blockbusters, is showing some long-term, creative thinking about how to fill up its pipeline (and even the whole industry's) with innovative new drugs.

J.

Here's how the new plan is supposed to work, based on a chat last week with J.C. Gutierrez-Ramos, a senior vice president at Pfizer in Cambridge, MA, who is overseeing the Centers for Therapeutic Innovation in Boston, San Francisco, and New York.

Instead of being set up in a distant

headquarters, the new Pfizer centers are being established right across the street or down the hall from some of the top minds in biomedicine. The centers will be staffed by SWAT teams of about 40 people with entrepreneurial experience in biotech, venture capital, or in one of the more aggressive corners of Pfizer itself. Their job starts with watching for seminal publications on new drug targets. Then they will identify the subset of researchers with the most motivation to test their new proposed drug mechanism in people, rather than just move on to the next line of research.

C. Gutierrez-Ramos of Pfizer

The job of these Pfizer people is to ride herd on these early stage drug development projects, to make sure they have the money and manpower needed to get to a "proof of mechanism," or POM, as Gutierrez-Ramos says. The Pfizer teams will have access to plenty of cash to ... Next Page »

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Single PageCurrently on Page: 1 2

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push forward each project, Gutierrez-Ramos says. The teams will also be able to lean on Pfizer's global network of people who know how to synthesize drug candidates, and run animal tests. The Pfizer innovation centers will be evaluated based on whether they can get these "proof of mechanism" questions answered on time, in three years, instead of the usual 10 years it takes now, Gutierrez-Ramos.

"The goal when we get together with an investigator is only one," Gutierrez-Ramos says. "To try to demonstrate that we might have a new medicine."

If a project shows promise, then Pfizer has the option to license in the program for its internal R&D, and go off to the races through the usual series of clinical trials needed for FDA approval. But if the biological mechanism is outside Pfizer's development portfolio, or looks too risky, then the intellectual property reverts back to the academic institution. The university can

then license it out to another company, or use it to form a new startup. When the project goes back to the academic institution, which Gutierrez-Ramos says should happen quite often, Pfizer will retain the right to co-invest along with VCs.

This is clearly a new way of doing business between pharma and academia. One former dealmaker there told me that in the old days, Pfizer would rather let drug candidates sit on its shelf than let them go back to a university, and end up potentially doing something good in another company's pipeline. One venture capitalist told me he's hopeful that it could help stir more entrepreneurial spirit in academic medicine, if investigators can gain confidence in the bushwhackers who are working on their behalf in a big company with multiple layers like Pfizer.

The odds would almost surely say this effort is doomed to fail. The organizations have different goals, in that academia wants to advance knowledge, and pharma wants to make money. Pharma companies have been known to try to censor or heavily edit academic publications that cast a negative light on their products—a major source of tension and distrust in academia. Most academics and most people inside Big Pharma aren't entrepreneurs with the monomaniacal focus and drive that comes from not knowing if you can make payroll next month. There are cultural and personal differences too, in which academics sometimes look at businesspeople as overpaid hacks, and businesspeople see academics as undisciplined spoiled brats who have no clue about drug development.

The main enemy Gutierrez-Ramos sees is cultural inertia, i.e., the old way of doing business. The CTIs need to be staffed with the very best people to pull this off, he says. Trusting, professional relationships need to be forged on both sides. That sort of trust doesn't get built overnight, and can be lost in a heartbeat.

There's no doubt that Gutierrez-Ramos is a thoughtful guy, and knows he needs a potent motivating force to counteract all the negative vibes that could drag this down. He told me last

lifetime opportunity to see if they can prove whether their ideas are right.

Pfizer, of course, needs lots of big new drugs to keep its business going in its current form, and it's not finding enough of them from its internal R&D. In a worst case scenario, Pfizer flushes a few hundred million dollars down the tubes, which isn't much for a company with an $8 billion annual R&D budget. But if it does work, Pfizer expects it could get 20 to 30 percent of its R&D done through these academic collaborations, Gutierrez-Ramos says.

It also could establish a new template for other companies, and other academic centers, to do a better job of taking drugs all the way from early research through development. If that happens, it could revitalize the whole creaky engine of pharma R&D, which would be good for more than just Pfizer.

"My responsibility is to make sure Pfizer improves the quality of the medicines going forward in our pipeline," Gutierrez-Ramos says. "But unless we increase the overall level of biomedical research, then Pfizer as a whole can't win."

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Single PageCurrently on Page: 1 2 previous page

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Bigger Isn't Better: It's Time for Big Pharma to Break Up Into Little Pharma

Luke Timmerman3/28/11Comments (8)Follow @ldtimmerman

Fresh headlines cross my desk almost weekly about the crisis in the pharmaceutical business. Jaw-dropping sums of money, about $65 billion a year, flow into the pursuit of new medicines. Yet every year we hear the same old refrain—a pathetic number of new FDA-approved drugs, just 21 last year—come out the other end.

This highly unproductive endeavor has caused endless hand-wringing and finger-pointing. Some like to blame the FDA for being too much of a hard-ass, setting impossible standards for safety and effectiveness. Others accuse scientists for overpromising about the benefits of the genomics revolution, then failing to deliver. Wall Street is an easy boogeyman, given its fast-money obsession that is out of whack with the long-term financial support drug development requires.

But if we really want to see more wonder drugs, then Big Pharma needs to take a hard look in the mirror. Big Pharma's mega-merger binge of the past few years

made quarterly earnings reports look better, and put a lot of money in the pockets of lawyers, investment bankers, and C-level executives. But now that much of the dust has settled, these companies can see they have created enormous global organizations (Pfizer/Wyeth, Merck/Schering-Plough, Roche/Genentech to name a few) that are so far-flung it is darn near impossible to know who's on first anymore. Pfizer alone now has 110,000 employees around the world.

I've heard something close to this sentiment—on background—from multiple sources within most of the major pharma companies I've talked to over the past few months. Mega-mergers create a lot of internal bureaucratic headaches—which mostly get glossed over in favor of the spin about synergy and complementary corporate strengths. Months, sometimes years, get spent as these companies try to figure out exactly what they now have obtained through the merger, so they can figure out what to keep and what to scrap in their newly bloated organization. While they all say that partnerships with small biotechs and academic institutions are critical, becoming Titanic in size makes it hard to stay on the same path with smaller, nimbler organizations.

Technology, I'm sure some will say, will fix some of this inefficiency in drug development. We're living in the age of the $10,000 genome, and fast on our way to the time when entire human genomes will be sequenced for $1,000 or so in an afternoon. It's true, this is an exciting trend that is bound to help drug developers gain a much better understanding of the genetic and molecular underpinnings of disease. It ought to pave the way for more personalized therapies with a better chance of success in clinical trials.

There are some inspired ideas out there which could transform the drug

development business. Merck, Pfizer, Eli Lilly, Novartis, Johnson & Johnson, and Abbott Laboratories have pooled resources in a Boston outfit called Enlight Biosciences that is seeking to create enabling technologies, like RNA interference, which can be used for the betterment of the entire industry. Some of the same characters are contributing money and data to Sage Bionetworks, a Seattle-based nonprofit seeking to spark an "open-source" movement for biology. The notion is that biologists can no longer keep working in isolation, and they need to put much more of their experimental data in the open, to harness the wisdom of the crowd to create better drugs.

But none of these technologies or collaborative efforts are going to amount to much if ... Next Page »

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Single PageCurrently on Page: 1 2

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Xconomy Forum: Reinventing Biotech's Business Model

Bigger Isn't Better: It's Time for Big Pharma to Break Up Into Little Pharma

Luke Timmerman3/28/11Comments (8)Follow @ldtimmerman

Big Pharma continues to set up R&D teams that are too big. It's time for Big Pharma to get serious about breaking up into Little Pharma.

It's hard to say whether Big Pharma is ready to go down this road. In a recent op-ed for The Economist, GlaxoSmithKline (NYSE: GSK) CEO Andrew Witty did acknowledge that an industry culture change is in order. The imaginative R&D environment he describes sounds more like the one you see sometimes at small biotech companies.

"In the past the problem of R&D in big pharmaceutical companies has been 'fixed' by spending more and by using scale to 'industrialise' the research process. These are no longer solutions." Witty wrote. He added: "We need to recapture the ability to empower creative talent in the discovery phase of R&D by creating an environment in the labs that reflects the

fact that discovering a drug is as much an art as it is a process."

Witty doesn't go so far as to say smaller is better, but the environment he describes sounds small, and reminded me of some comments former Merck CEO Ray Gilmartin made to me a few years ago when he was visiting his company's Seattle branch. I asked Gilmartin whether Merck would continue to grow its Rosetta Inpharmatics operation in Seattle. At the time, Merck had about 300 people doing leading-edge work that was supposed to help it separate the wheat from the chaff in its drug development pipeline.

No, Gilmartin said, 300 people was pretty much as big as Rosetta would ever get. With fewer people, he said, it would be too small to make an impact. But if it got much bigger, then the staff would end up spending so much time in meetings, trying to figure out who's doing what, that productivity would go down.

Gilmartin, regardless of whatever mistakes he made during his tenure, had a point. Very few of the high-impact drugs of today are coming from the biggest R&D budgets in Big Pharma. If you look at the eight blockbuster drugs in the works that I listed in this space a couple weeks ago, six were developed by small companies. Even if you add Bristol-Myers Squibb's new FDA-approved melanoma drug to the list, that really shouldn't count as a Big Pharma contribution, because all the critical early development work came from a small company, Medarex, that was bought by Bristol.

Do you think Big Pharma should get smaller to create new drugs? What is the ideal amount of money and manpower needed for pharma R&D? What kind of culture does it really take to pull of this act of art and science? I'd love to hear your thoughts in the comment section below.

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Single PageCurrently on Page: 1 2 previous page

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Why Twitter Matters Now in Biotech, and Why Executives Can't Ignore it Anymore

Luke Timmerman6/13/11Comments (6)Follow @ldtimmerman

Two years ago, I caved in to the pressure and signed up for a Twitter account. I had been resisting for months. Millions of people were flocking to the 140-character microblogging service, but from what I could see then, it looked like a time-wasting fad.

Hardly anybody in the business I write about, biotechnology, was using it. Since no one in my niche was there, who would care to read my writing? Worse, it seemed like a good way to fragment my attention span into a million little pieces by consuming gossip and trivia, diluting the focus needed to produce in-depth biotech news and feature stories on tight deadlines.

Wrong, wrong, wrong. While I do still have some concerns about what real-time connectivity is doing to humanity, which Bill Keller voiced recently in the New York Times, I've come around to the idea that Twitter, used wisely, has potential to be a great force for good in biotech. I've been careful to follow people that have valuable

and relevant information to report and share, while unfollowing everything else. I've expanded my professional network around the world by having conversations with readers I never would have met any other way. I've gotten story tips. And this is all happening even while I surmise that fewer than 1 percent of all U.S. life sciences professionals are using the service.

Given how biotech usage of Twitter is still so small, I've become convinced that as it grows it will help make the industry much better connected, and maybe even more effective at tackling hard problems like new drug development. It's already getting to the point where biotechies who aren't paying attention are putting themselves a few steps behind everyone else who uses it.

The latest example of Twitter's rising prominence in biotech came from the American Society of Clinical Oncology conference. Last week at this huge gathering in Chicago, there were thousands of real-time bursts of information and commentary on the latest in cancer drug R&D. No one person can keep up with all the details from simultaneous presentations around McCormick Place. And if you rely on major media outlets for coverage, you're really only hearing about the top dozen or so stories that ASCO's PR machine doles out to hundreds of reporters there who are writing different versions of the same stories.

With Twitter, the information exchange is real-time, continuous, and comes from a much richer variety of sources than that. It can be overwhelming and messy. But because so many people from various rooms at the conference were filing Tweets in real-time, and funneling them into one place by using the signature #ASCO11, I was able to monitor what was happening at ASCO in real-time from 2,000 miles away. And these dispatches came from an amazing array of people with different kinds of expertise. There were doctors on handheld devices tapping

away like @DrAnasYounes and @teamoncology. There was the indefatigable cancer consultant @maverickny. There were stock analysts, like @biotechstockrsr. There were top biotech journalists like @matthewherper and @adamfeuerstein. There were a few pharma companies like @roche_com, @novartis, and @genentechnews who have social media people getting the word out about their products, sometimes in a more thoughtful way than the average press release. If you followed the #ASCO11 topic, you ended up getting some noise, but also a lot of signal. For me, it provided a pretty broad and deep appreciation for what was going on at the conference—like how people were talking about cost-effectiveness of cancer drugs much more this year than in years past.

I've talked to a handful of biotech executives about this, and I've heard all kinds of objections to signing up to this service. Most of it boils down to fear of the unknown, like I felt two years ago. Biotech is a highly regulated business after all, so executives can't just go around firing off missives on a smartphone about how wonderful their drugs are if they want to stay on the good side of the FDA. Beyond that, everyone's busy. I don't know anybody who feels they have extra ... Next Page »

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Single PageCurrently on Page: 1 2

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time to devote to this thing when they don't see the value.

Bit by bit, there are a few people out there in biotech showing the way. Michael Gilman, @michael_gilman, has become a master Yoda of sorts for biotech executives curious about entering the social media arena. Gilman, who described his Twitter experience in an Xconomy guest post last November, has expanded his professional network and reputation by making concise, witty comments about biotech news of the day, and passing along story links. Bruce Booth of Atlas Venture, @lifesciVC, is another who has quickly made a bigger name for himself by passing along links to sharp blog posts that I think have to be considered a must-read for any biotech executive or investor. One of the few Twitter-savvy executives at a publicly traded biotech company, Richard Pops of Alkermes @popsalks, has found

clever ways to speak out on issues that are important to him, and his company, with a highly targeted audience of followers.

Slowly but surely, I'm running into more biotech execs who are dipping their toes in. Carol Gallagher, the CEO of Calistoga Pharmaceuticals when it was sold to Gilead Sciences earlier this year, said she took the first step by signing up for an account, @carol_gallagher, in mid-May. She had been reluctant for the reasons mentioned above—lack of time, lack of understanding the value. But since she attended ASCO, and monitored the news flow from some of the Twitterers listed above, the light bulb flipped on. "It greatly expands the discussion among people talking about biotech news," Gallagher says.

She has been hesitant to do much Tweeting herself until she gets the hang of it. But Gallagher says she's become comfortable now that she realizes she can mostly listen to what people are saying about topics she's interested in. Even before she really actively engages, Gallagher says she's already finding networks of people she never would have encountered before.

"In this business, you need all the help you can get in building bridges," she says. "I'm realizing that I might find a new employee, a new investor, a new partner through this. It really is broadening."


Carol Gallagher

No doubt, Twitter has a long way to go before it will achieve critical mass among thousands of biotech companies and professionals. The content can get spammy in a hurry if you aren't careful about who you follow. Brian Reid, a life sciences public

relations professional with WCG, has been pushing for companies and researchers to develop more advanced social media habits. He's been encouraging people to embed QR codes in data posters, so that if somebody tweets "great data from Company X's drug for breast cancer" they can also snap a photo of the QR code, so there's a way for followers to click on a link to details that support the claim, which otherwise could look like just some ephemeral blast of hot air.

Personally, I've found over time that Twitter is what you want to make of it. It's more than just a place to share links to my Xconomy stories. It's become an important way I communicate every day with readers. Besides my stories, it's a place to comment in real-time with some snappy quotes from a conference, to add two cents on a sporting event (Go Mavs!), or let my followers know where I am in case they want to meet in person. (I'm in Boston this week for a big Xconomy event).

I've learned I need to carefully discipline myself to avoid spending too much time trying to monitor everything on Twitter, or even half of what was going on at #ASCO11. That would be a waste of time, and a good way to get ADHD. I try to monitor the stream only a handful of times a day, as a sort of break between other tasks. But I can't imagine going back to 2009 when I didn't have this channel for sending and receiving biotech news from a whole lot of very smart people. My bet is that a lot more biotechies are going to see the same thing in the year ahead.

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Biotech VCs Have a Problem, and it Will Get Worse Before It Gets Better

Luke Timmerman10/24/11Comments (7)Follow @ldtimmerman

We've heard warnings for a couple of years now that the chickens would come home to roost in the biotech venture capital scene. Quite a few VCs just haven't delivered the returns to back up all their talk, and you can't wait around forever for things to improve.

This drama is going to be long and painful, and it's only just beginning. There were a lot of firms that raised their last funds before the financial crisis of 2008, and after putting much of the cash to work in startups, they are finding it much harder to raise new funds today. While some of what's happening may be a necessary culling of the weaker members of the VC herd, this trend is going to make it tougher than ever for some worthy entrepreneurs to raise cash for new companies to develop drugs, medical devices, and diagnostics.

Consider the headlines from the past few months. The National Venture Capital Association reported in a survey that four out of every 10 biotech funds have

curtailed life sciences investing in the past three years, and the same number expect that to continue the next three years. In June, CMEA Capital said it has no plans to raise another fund, although it did carve out the relatively small sum of $20 million to invest in different biotech models through a vehicle called Velocity Pharma Development. Earlier this month, Prospect Venture Partners, a well-respected name in biotech, told VentureWire it was unable to raise enough cash to execute on its strategy for another healthcare fund.

This past week, I heard rumblings about how another well-regarded biotech venture firm in San Francisco—The Column Group—had fallen on hard times, which was about half-true. And I'm hearing that we're going to see more fallout from other firms retrenching or restructuring before 2011 is done.

The Column Group, a firm with three Nobel Laureates on its science advisory board and a couple of big-name partners in David Goeddel and Rick Klausner, confirmed to me last week that it is no longer investing in new startups. The firm raised its initial $260 million fund to invest in 10-12 early-stage, big-idea life sciences companies, starting in early 2007. Since then, it has invested about half of its money in 10 companies, and is reserving the other half for follow-on investments in the existing portfolio, says managing partner Peter Svennilson. The firm considered raising a second fund about 18 months ago, he adds, but decided against it. The Column Group hasn't generated any returns yet, and it is essentially in a holding pattern until it does.

"The partnership has decided we want to have a couple spectacular exits from our first fund before we raise the second fund," Svennilson says. He adds: "The times are over when you can raise several funds on a concept."

Peter Svennilson of The Column Group

Biotech has long depended on its “blue-sky” concepts that caused people to look away from the cold reality of spreadsheets, and toward the warm glow of potentially groundbreaking technologies like RNA interference, stem cells, and genomics. If The Column Group can’t raise money with all its scientific expertise, then you can imagine how that sends shivers throughout the venture industry. The Column Group has made a number of high-profile investments, and syndicated with some of the biggest boys of biotech VC—Kleiner Perkins Caufield & Byers, Third Rock Ventures, Venrock Associates, OrbiMed Advisors, New Enterprise Associates, and SV Life Sciences. When I interviewed Mike Ross of SV Life Sciences at the last JP Morgan Healthcare Conference, he said he was concerned about whether there are enough venture capital partners, over the long haul, who will be strong enough to help finance a promising company all the way to the point it can generate liquid returns.

I heard a similar theme this week from Mike Powell of Sofinnova Ventures. Sofinnova was a bright spot on the VC landscape last week when it said it was able to raise a $440 million biotech-only fund, after initially seeking to raise a max of $400 million.

Powell expected to get a lot of congratulatory e-mails, which he did. But he got way more than he expected—”hundreds and hundreds” of e-mails from industry colleagues who expressed how big an achievement it was to raise that cash in such a bad environment. And there were other curious **...** Next Page »

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Xconomy Events

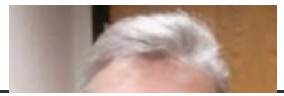
Xconomy Forum: New England’s Emerging Biotech Stars

Biotech VCs Have a Problem, and it Will Get Worse Before It Gets Better

Luke Timmerman10/24/11Comments (7)Follow @ldtimmerman

signs in many of these notes. Some junior venture partners sent in resumes, and more senior partners sent more subtle job-hunting notes. Quite a few of the folks at these firms don't have much to say about their future plans, he says.

"There are many groups out there who if you say to them 'Hey guys, what's the plan, what's the future look like for you?' and they'll say something like 'We're going to work on our existing companies for a while, a year or two, and once we get some exits, then we'll fundraise.'" Powell says. He adds: "Some of those groups will fundraise, and some will not fundraise."



Powell's estimate is that by the end of the year, we'll see

five to 10 more biotech venture firms do something to adjust or restructure. These deals could come in different forms, like what CMEA did by splitting off $20 million for Velocity, he says, or in some cases, firms will merge. "You won't see that many people just roll up the carpet and say 'we're not raising a new fund,'" Powell says.

Mike Powell of Sofinnova Ventures

The Column Group's Svennilson said he thinks biotech VC shrinkage could be a good thing, as long as the surviving firms are able to pump a similar amount of overall money into startups. "When we started, we felt there were way too many companies getting started," Svennilson said. "We felt the best ideas should get funded, not all of them."

I think there's some wisdom in that approach, that the pressures VCs are facing today will force them to adapt to the new environment. There are some interesting and healthy experiments going on today in new biotech venture models. But the trend in venture capital today is tilting away from life sciences, and toward IT, in a worrisome way. If biotech VCs don't really can't find a way to adapt, then in a few years we can expect thousands of Facebook wannabes crawling all over the U.S. and hardly any Genentech wannabes.

Given how much opportunity there is in biology today, I've got to believe that entrepreneurs and investors will find a way to harness it over the next few years to reinvigorate the whole industry. Taxpayers will invest billions in basic research at the National Institutes of Health over the next decade, and somebody needs to figure out how to apply the discoveries that will come out of that work in the business world. It will be a real shame if it's not the venture capitalists who

do that.

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