

Q&A WITH ALLERGAN PRESIDENT AND CEO BRENT SAUNDERS

EyewireTV sits down with Allergan to discuss how the company's merger with Pfizer will affect the retina industry.

BY STEVE DAILY, EXECUTIVE EDITOR, EYEWIRE



It has been an active 5 years for Allergan President and Chief Executive Officer (CEO) Brent Saunders, and the spotlight on the young executive known for his mastery of mergers and acquisitions is shining brighter than ever. His track record of growing revenue and rewarding shareholders through acquisitions, innovation, and a solid product portfolio is well documented. His success has led to rapid ascension on the pharmaceutical executive ladder.

Mr. Saunders became a CEO for the first time in 2010 at Bausch + Lomb. Three years later, he oversaw the sale of the company to Valeant Pharmaceuticals International for \$8.7 billion. In October 2013, he became CEO of Forest Laboratories. Soon after, Actavis bought Forest, and Mr. Saunders became CEO of the combined entity. Then, 1 year ago, in a \$66 billion deal, Actavis purchased Allergan, helping thwart a hostile takeover bid by Valeant. Actavis assumed the Allergan name and made Mr. Saunders CEO.

But Mr. Saunders is not resting on his laurels. Pfizer and Allergan officially announced that they entered into a definitive merger agreement to combine in a stock transaction valued at about \$160 billion. The takeover, which is expected to close in the second half of 2016, would be the biggest deal ever in the health sector. It was announced that Mr. Saunders would serve as the president and CEO of the combined company, which will be called Pfizer.

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During the Ophthalmology Innovation Summit (OIS), which preceded the American Academy of Ophthalmology meeting in Las Vegas, Mr. Saunders gave the Plenary Keynote Address and made clear he would not be discussing the then potential deal with Pfizer. He focused much of his talk on the importance of investing in ophthalmic innovation, and he reiterated that he is committed to eye care. Mr. Saunders talked about the shift in the "pharmaceutical innovation ecosystem," in which the driving force



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of innovation is now coming from small biotechnology and specialty pharmaceutical companies, rather than global pharma companies, which had previously driven the majority of new product revenue.

After the OIS meeting, Mr. Saunders spoke with BMC about a variety of topics, including Allergan's growing eye care portfolio, his philosophy on research and development (R&D), drug pricing, and his personal and professional goals. After the Allergan-Pfizer deal was announced, Mr. Saunders spoke with BMC about the deal and what it potentially means for the future of Allergan's eye care business and operations. These two interviews—one conducted directly after the OIS, and the other after the merger announcement—shed light on one of ophthalmology's most interesting industry leaders.

INTERVIEW AFTER OIS

BMC: At Allergan, there are 17 products in development in eye care. Please talk about the health of the company's eye care pipeline and the company's market outlook for ophthalmology and eye care.

Brent Saunders: Yes, we have a very strong R&D pipeline at Allergan in eye care. Most of the 17 or so programs you mention largely fall into three buckets [glaucoma, dry eye, and retina], plus a few other areas that we are exploring.

In retina, we have an R&D partnership with Molecular Partners, where we're working on DARPin for retinal disease. Our lead program is abicipar, which is in phase 3 for age-related macular degeneration [AMD], and then moving into phase 3 next year for diabetic macular edema [DME]. We're very encouraged by the efficacy that we're seeing in that program, but we'll have to wait until we have phase 3 data, probably some time toward the end of next year.

BMC: You have invested in your retina pipeline with late-stage products such as DARPins for wet AMD. What specific areas of eye care do you believe present the greatest potentials for growth moving forward?

Mr. Saunders: I think there are quite a few. There are big categories with still unmet needs. Take abicipar, and ultimately the whole DARPins platform. There are some very good drugs on the market like Lucentis [ranibizumab, Genentech] and Eylea [aflibercept, Regeneron] for AMD and DME and some other diseases. All they do is slow progression. People still lose significant vision with AMD, and the injections are regular and very uncomfortable, which also slows down compliance, so we need to solve for efficacy, and ultimately we need to continue to invest to look for new mechanisms to halt or stop the progression of AMD and DME completely and other related retina conditions. So there's still a huge market with huge opportunities to innovate.

BMC: At the OIS meeting, you talked about innovation and investment in eye care. You said, "We're on the cusp of entering a new golden era of innovation in eye care." Can you talk about that statement and why you believe investment in eye care is rising?

Mr. Saunders: Eye care, I think, still has a tremendous opportunity, and I believe that we're on the cusp of entering another golden age of innovation. A key factor is that, when you look at the prevalence of eye disease, it's still incredibly large. There's still so much opportunity for innovation and improvement and treatment for the diseases, some of which we just discussed. Whether it be AMD,

glaucoma, or dry eye, there's still so much opportunity to improve therapy and improve outcomes for patients, so that's one important factor.

A second key factor is that the ecosystem of ophthalmology and eye care is robust. There are so many innovators. There are so many strong companies willing to invest in R&D and innovation, and I think this is one of the really exciting areas of health care, where, if you have a good idea, there's a lot of venture money, and the support system and the ecosystem to turn that idea into a business that can invest in R&D is high, and that's another big factor. Ultimately, I think that our ability to bring those ideas to patients is becoming greater and greater as our global capacity, our ability to work with the physician community and ultimately deliver medicines and services to patients, is quite high.

BMC: I'd like to change gears and discuss issues regarding the current state of operating a large drug company. When it comes to money and resources devoted to research and development, every company has a different philosophy. You have had a reputation as a CEO who is wary of the costs of early-stage drug development and have talked about the importance of partnering with small biotech companies and academia. Other large pharma companies have often relied more on internal R&D. Can you talk about your philosophy when it comes to investing in drug discovery and what you believe is the most effective means to get a product from the development phase to commercialization?

Mr. Saunders: To be clear, I've always embraced innovation. I believe innovation is the lifeline of our industry and certainly is at the heart of what Allergan is today. That being said, as a CEO and as a leader of our business, I've always been careful about how we spend our money. We always want to make sure that we're spending our money in a productive manner and where we believe we can add value.

When I look at discovery research, I look at it as an area in health care that has struggled, but that doesn't mean I'm against it; it means I want to do it with caution and with a lot of examination. That said, when I took over Allergan, I spent a lot of time looking at our discovery capabilities and our discovery labs, and what I learned was that we did have a comparable advantage. We had a group that was being productive. Therefore, I feel very comfortable investing in that group and in those programs.

Our model is really open science, and so our goal is to find the best ideas for innovation regardless of where they come from. It doesn't matter to me, to be fair, whether an idea comes from an internal bench scientist working in our labs or from a small biotech company in a different part of

the country. The important thing is, is the idea a good one? Can we invest to bring it to life? And, ultimately, will it help patients? If the answer is yes, I'm really indifferent to where it came from.

BMC: There has been a lot of focus recently on drug pricing, and a few high-profile cases of supposed price gouging on behalf of pharma companies. The pricing policies of drug companies have caused political scrutiny, and in many cases there seems to be a lack of trust on the part of the public and patients who rely on these drugs. As the CEO of a major pharma company, what are your thoughts on the recent public scrutiny over drug pricing? Can you talk about the process of trying to set drug prices in a responsible manner and grow the business for shareholders?

Mr. Saunders: I think you said it well in the question. There have been a few controversies of late from companies that have, I think irresponsibly and egregiously, raised specific drug prices, and I think most of those companies are outliers to the mainstream pharmaceutical industry. Most of the pharmaceutical industry takes the responsibility around drug pricing quite seriously and tries to set prices in a manner consistent with the value equation that they're creating, and I think we do that because we have a social contract, an unwritten social contract, with America.

Let's talk about the United States right now. We are committed to investing in R&D. We are committed to investing for unmet medical need, and we are committed to running our businesses responsibly. But we also have to create a return, not only for our shareholders, but to justify the investment in innovation and R&D. So all those things have to be balanced. As a result, most mainstream companies, Allergan included, really try to look at how to set drug prices. In particular, the last few years we have really tried to study the pharmacoeconomic benefit of our products in society and justify their pricing. We don't sell a statin, but if you look at that class of drugs for example: I recently saw a study showing that the statin class has essentially reduced about a trillion dollars of health care burden in the United States in the form of improved cardiovascular health and, therefore, less cardiovascular disease. And industry itself has received less than 25% of that value in return for that trillion dollars in savings.

That's a hard argument for people who are the consumers of drugs to understand. If you're sick, all you care about is what the drug costs you—and rightly so. So that's where the big disconnect comes. I think transparency around drug pricing is important, and the current scrutiny is good. It's a positive that will hopefully keep in check companies

that want to do egregious things. At the end of the day, we all need to approach this in a responsible manner.

BMC: In recent years, we have seen companies moving operations overseas through mergers and acquisitions to take advantage of a more favorable tax jurisdiction. Some CEOs have voiced their concerns about operating under the US tax regime, calling it a disadvantage in competing against foreign companies. Do you believe changes are needed in the United States to allow a more favorable tax rate?

Mr. Saunders: Yes. To be fair, I think that has little to do with tax rate. I think the United States has to become more competitive around the global versus territorial tax system. The real reason why companies have been moving abroad and why American companies have been disadvantaged competitively against foreign companies has almost nothing to do with the tax rate in and of itself. It has to do with the double taxation of American companies' foreign profits. Virtually no other country in the world has a double taxation on foreign profits like the United States does. That is the main reason why this phenomenon exists, and I believe the United States should solve it to make America more competitive.

INTERVIEW AFTER ALLERGAN-PFIZER MERGER ANNOUNCEMENT

BMC: Following the announcement of the merger, you said that Pfizer will expand the reach of Allergan's established portfolio by using its existing commercial capabilities, infrastructure, and vast global footprint. How do you believe Pfizer will help the existing high-growth therapeutic areas that Allergan is currently in? And how does the combination increase the ability to develop drugs and get them onto the market?

Mr. Saunders: The way I think about it is one of our most important goals is to get our medicines and therapies to patients around the world. Today, we do that in roughly 60 markets around the world. Pfizer does it in roughly 160 markets in the world. So, this transaction will enable us to significantly expand our international presence and very quickly begin to bring medicines to people in 100 countries in the world that we don't currently sell our products in.

That has enormous opportunity for physicians and patients around the world to get the access, not only to our current portfolio or our established portfolio, but also to the drugs that are coming in our pipeline. Ultimately, I think that's a real win for physicians, eye care professionals, and patients.

BMC: At a Forbes summit last week, you said one of the benefits of the merger, in addition to Pfizer's large R&D capabilities, is that some of the applications from Pfizer's

specialties such as oncology, may be used to develop new molecules in Allergan's existing portfolio, such as ophthalmology. Can you discuss how you believe Allergan's current portfolio can benefit from Pfizer's current offerings?

Mr. Saunders: At Allergan today, we employ a strategy called "open science." In eye care, we have some discovery capabilities and we also have deep development and regulatory capabilities in eye care. Under the proposed merger with Pfizer, at closing, we would have more significant discovery capabilities. Some of those exist today in areas like oncology or CNS [central nervous system] that could have application to eye care R&D, but they also could be just investing in building more capabilities to compliment existing Allergan discovery capabilities.

I really do think that this particular transaction could be a huge win for the eye care community in that you could see Allergan go even deeper into investing in R&D for unmet needs in eye care.

BMC: You have a long-term relationship with the eye care community and you have said that you would like to continue to pursue opportunities for growth in this field. At the OIS prior to the Pfizer merger being made official, you touted the 17 products currently in Allergan's eye care pipeline. But taking an objective view of the eye care market in the near and long-term, and under the large umbrella of Pfizer, how big of a focus will eye care be under the combined company? Do you feel ophthalmology presents a long-term financial growth opportunity for the new Pfizer?

Mr. Saunders: Yes. I think ophthalmology and eye care will be a top therapeutic area for the combined company. We will be a global leader in eye care. We will have a deep commitment to eye care. I think you'll see that—almost like you saw with the Actavis-Allergan merger—where we took a company with a deep history and commitment to eye care and tried to elevate our game with respect to our commitment to medical education, science, and product development. I think you're going to see that happen again, and perhaps even be a larger step in support of the eye care community.

Eye care is a terrific area of medicine. Ophthalmologists and optometrists are fantastic practitioners. The new combined Allergan-Pfizer will be, as I said, a world leader, and there's still so much unmet need. There's still so many people that are suffering for either known reasons or unknown reasons. And ultimately, where I'd like to see us go is from not just treating diseases, but curing them. I think this combination puts the new Pfizer, the combined Allergan-Pfizer, in a position to start the dialogue around cures versus just treatment.

BMC: Will eye care be treated as its own unit under the combined company?

Mr. Saunders: It's a bit early to say with certainty what the structure will look like, but Pfizer today operates under what are called global business units, or "GBUs" as they call them. Under that construct, eye care would become a global business unit, and more or less run independently.

BMC: Pfizer stated that it anticipates the transaction will deliver more than \$2 billion in operational synergies over the first 3 years after closing. I know it's still early in the process and a lot of the details are still being worked out, but what can you tell me about how the current operations at Allergan will be affected? And will the ophthalmology operations continue to be located in Irvine, Calif.?

Mr. Saunders: Yeah, again, it's a bit early to say with any certainty, but it would be very sensible to keep our eye care business centered or headquartered in Irvine. We would certainly keep our R&D capabilities for eye care in Irvine. While there are real synergies in \$2 billion, we'd generally be looking for areas of overlap, and eye care is not an area of overlap. Outside of some R&D programs and experience in eye care, Pfizer currently doesn't have any real commercial capabilities in eye care. So, there may be a few things that have to change, but I would analogize this to the Actavis-Allergan combination where you didn't see a lot of changes and you didn't see a lot of synergies come out of the eye care team.

BMC: I wanted to ask something related to the Actavis-Allergan deal. One of the things I think a lot of the medical professionals in the ophthalmology market liked is the fact that Allergan retained its name following that merger. I know that it was announced that the combined company will be called "Pfizer PLC," but what will become of the Allergan name? Will it remain a unit or a brand of Pfizer, or will it be eliminated?

Mr. Saunders: I think at this early stage, anything is possible. Obviously, I understand and appreciate the value of the Allergan name, and so we will study it and do it very thoughtfully, but clearly the company will be called Pfizer PLC. But if there's an opportunity to preserve the [Allergan] name for good reason, I'm very open-minded to that.

BMC: In recent years, Allergan has introduced some devices, particularly in the aesthetics business. However, Pfizer is more of a traditional drug company. Do you see the possibility for the new combined company to add devices to its portfolio?

Mr. Saunders: I don't think our strategy will change with

respect to eye care as it exists today. As you know, as of late, we have moved into devices with both the Xen stent and the Oculve dry eye device. We will continue to look for ways to solve for unmet need—whether it be drug or device. Obviously, we need to do things that we're good at. Capital equipment, for example, hasn't been an area where we've had tremendous experience, but if ultimately there's an opportunity to better serve our customers and solve for unmet need through capital equipment, we would be open to that as well.

BMC: There has been a lot of discussion on a national scale about the issue of tax inversion, and many politicians have weighed in. Some are using this deal as an example of the need for tax reform, with the goal of keeping companies, and the taxes they pay, in the United States. But earlier this week, in an op-ed that appeared in *USA Today*, you and Ian Read made the case that the Allergan-Pfizer deal is good for America, and the combination will expand your ability to invest in the United States. Can you expand on how you believe the deal is good for the United States?

Mr. Saunders: Yeah, the combined company will have roughly 40 000 employees in the United States. We will invest the vast majority of close to \$9 billion of R&D in the United States, and under the international tax regime, we believe we can sustain those levels of investment in doing important work in the United States. And so we are not trying to avoid paying our taxes. The new combined company will pay all the taxes on the profits it earns in the United States. This is about putting ourselves in a competitive position, not being double taxed on foreign profits, and being able to reinvest in America without having to pay additional taxes, to do things like R&D and employ 40 000 people. ■

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