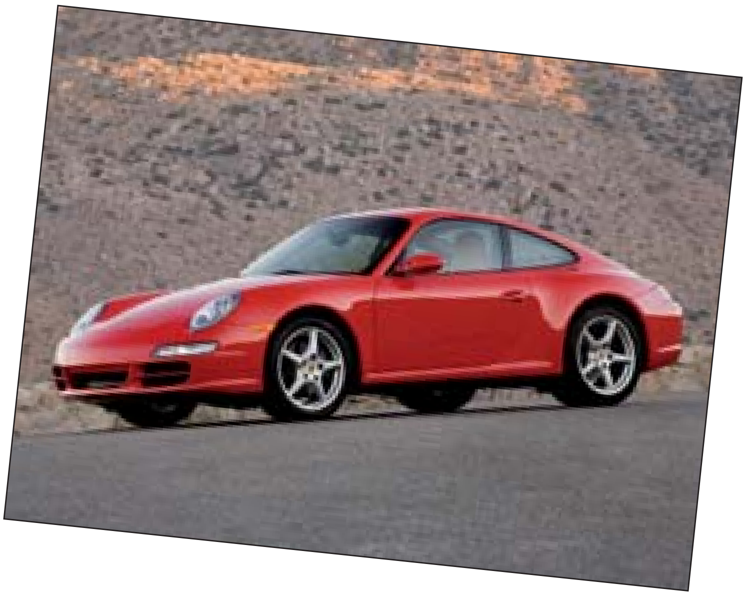
Big bosses' salaries

A New Porsche Every Day

To be chief executive in the pharmaceutical industry is a gruelling job. At least the compensation is reasonable.



They say that bearing responsibility is a burden that must be adequately rewarded. If this is true, fat cats of biotech and big pharma must be shouldering titanic burdens, considering the generous compensation they received last year. Most notably, Miles White of Abbott Laboratories, a former McKinsey manager, must literally be crushed by his heavy load. He is the highest-paid executive in the pharmaceutical and biotech world, earning €22.8 million in 2007 (including basic salary, bonus and other benefits). That is a daily income of €62,500, or, to simplify: Mr White's annual salary could buy him 365 brand new Porsche 911 Carrera 4S Coupe sports cars (see photo above).

Close behind Mr White is his Schering-Plough colleague Fred Hassan, a native of Pakistan and chemical engineer by profession.

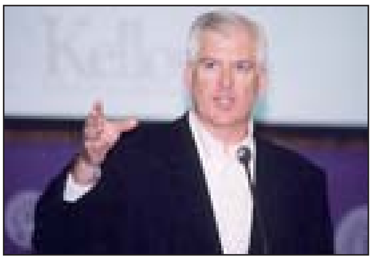


Photo: Abbott Labs

Earned €22.8 million last year. Miles White is well rewarded by Abbott Laboratories.

With a 2007 salary of €20.5 million, we fear that Mr Hassan will have to abstain from the Porsche's expensive alloy rims and luxurious leather furnishing.

Third place goes to Bill Weldon of Johnson & Johnson who was remunerated for his altruistic services with €17.1 million (including personal aircraft use). Behind these three, Wyeth's Bob Essner narrowly missed the podium, earning a measly €16.4 million in 2007.

Salary has nothing to do with "importance"

It's astonishing that some of the world's largest pharmaceutical companies, by total revenue, like Pfizer (2nd) and GlaxoSmithKline (4th), have executives that are relatively modestly paid, while midium-sized companies, including Schering-Plough (16th), Baxter (17th) and Cephalon (45th), pay royal rewards to their lucky leaders. More striking is that Sanofi-Aventis' Gerard Le Fur has to take a back seat with a tiny salary of €2.2 million, especially considering that the French have the 6th largest pharmaceutical company worldwide, according to Wikipedia's "list of the 50 largest pharmaceutical and biotech companies ranked by healthcare revenue".

Another remarkable thing is that companies such as Amgen, Genentech and Genzyme, usually classified as "biotech" firms, are, in reality, the new big pharma. They sell drugs, and their revenues rank within the 20 largest pharmaceutical companies (Amgen, for example, earned €10 billion in 2007, ranking 14th by Wikipedia, behind Eli Lilly and ahead of Boehringer Ingelheim).

At least the "biotech" bosses know the score and receive "pharma-like" salaries (primarily the US bosses). Amgen's Kevin Sharer and Genentech's Arthur Levinson were paid €13.6 million and €12.8 million, respectively, followed by Genzyme's CEO Henri Termeer, who made €10 million. Gilead's John Martin had to bite the bullet with only €7.4 million in 2007.

But hey, I doubt he was crying all the way to the bank.

Winfried Koeppelle

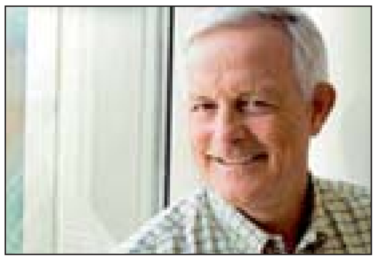


Photo: Amgen

Ranking 5th in 2007, Amgen's Kevin Sharer made a pretty €13.6 million while leading the Californian company.

Big money

Chief Executives' Salaries

1. Miles White	Abbott Labs	€22.8m
2. Fred Hassan	Schering-Plough	€20.5m
3. Bill Weldon	Johnson & Johnson	€17.1m
4. Bob Essner	Wyeth	€16.4m
5. Kevin Sharer	Amgen	€13.6m
6. Arthur Levinson	Genentech	€12.8m
7. Robert Parkinson	Baxter	€12.0m
8. Daniel Vasella	Novartis	€10.6m
9. Henri Termeer	Genzyme	€10.0m
10. Richard Clark	Merck	€ 9.9m
11. Frank Baldino	Cephalon	€ 9.2m
12. Sidney Taurel	Eli Lilly	€ 8.9m
13. Jeff Kindler	Pfizer	€ 8.6m
14. Jim Cornelius	Bristol-Myers Squibb	€ 7.7m
15. Franz Humer	Roche	€ 7.6m
16. John Martin	Gilead	€ 7.4m
17. James Mullen	Biogen Idec	€ 6.1m
18. Robert Coury	Mylan	€ 5.8m
19. Jean-Pierre Garnier	GlaxoSmithKline	€ 4.1m
20. Werner Wenning	Bayer	€ 3.3m
21. David Brennan	AstraZeneca	€ 2.9m
22. Gerard Le Fur	Sanofi-Aventis	€ 2.2m

(Survey period: 2007;
Source: FierceBiotech/Own calculations)

Roche to overtake Genentech

Fatal Embrace?

The Swiss drug maker Roche reveals plans to spend €30,000,000,000 for a residual 44 percent stake of Genentech. The deal could turn out to be a *coup de main* as well as a needless disaster.

Just a few months after Roche's buyout of Ventana Medical, a supplier of diagnostic products, the Swiss drug maker is arranging its next big deal. And that deal is bigger – a great deal bigger. Roche has announced plans to buy all remaining shares in Genentech, San Francisco, for the equivalent of €30 billion (Roche is already the majority shareholder). The deal will be the biggest to date for Roche.

The offer of July 21st has dramatically enhanced Genentech's share price. When *Lab Times* went to press, shares had risen by more than 30 percent within a few weeks, boosting the whole company's market value to €68 billion. When Roche bought the first 56 percent stake of Genentech in 1990, they acquired it for €1.5 billion – mere chickenfeed.

In other words, within 18 years, Genentech's value multiplied 25-fold. As an owner, Roche participated in this multiplication.

An offer that can be refused

It is unlikely that Genentech's minority shareholders will accept the first attempted offer. Roche will probably have to extend it. A lot of clinical trial results are pending for Genentech over the next months. If the majority are successful, the company's share price could rise again, significantly. Some analysts have called Roche's offer "cheap". Whereas the offer is equivalent to a share price of some €60, many analysts estimate that a "fair price" would be much higher at around €75. A group of independent Genentech directors are in agreement. They rejected Roche's initial offer and recommended a higher price.

The planned takeover will undoubtedly be a kind of "practical test" for Roche's new leader, Severin Schwan, who replaced the former chief executive, Franz Humer, in March 2008. An unusually young and inexperienced manager at the age of 40, Schwan has yet to prove himself as a capable strategic leader. Schwan, a lawyer by profession, experienced a meteoric career success at Roche as a financial expert. In 2006, he became chief executive of Roche's diagnostics division. Like his predecessor, Franz Humer, he is an Austrian citizen and studied at Innsbruck University.

Roche's fruitful drug canteen

In 1990, Genentech was a small biotech firm with some promising but early stage projects. That has changed dramatically. With blockbuster cancer drugs like Avastin, Herceptin and Rituxan, Genentech became the second largest biotech company in the world (after Amgen), making an estimated €9 billion turnover and an estimated €2 billion profit in 2008.


Photo: Roche

Severin Schwan has made a distinct change in strategy, under the watchful gaze of his predecessor Franz Humer (right).

Over the past 18 years, Genentech has become a kind of "drug refreshment store" for Roche. Genentech drugs accounted for nearly one-third of Roche's 2007 revenue and a good deal of the Swiss pharmaceutical company's profit. Therefore, the next obvious step would be to scoop up the remaining Genentech stock. That should nearly double revenue and profit, shouldn't it?

That is just the point. Such calculations are often naive fallacy. Genentech's unique workplace culture has received many awards. The Californian company was named a "top employer in the biotechnology industry" by *Science* in 2007, and, next to dozens of similar awards, was one of the "100 Best Companies to Work For" for the tenth consecutive year by *Fortune*.

However, their workplace culture is mainly based on one thing alone.

Independence.

Roche has often been praised for its clever decision to give Genentech (and other absorbed biotechs) a long rein. The Swiss acquired majority stakes, skimming the cream but allowing them to run independently, and didn't meddle in the American enterprise. They did well not to do so. However, many at Genentech now fear that Roche will tighten the reins once they have gained full control over their company, putting at risk the independent and entrepreneurial culture that has been the secret of Genentech's success.

Swiss appeasement politics

Roche's CEO Schwan is, of course, appeasing. He feels confident (or so he says in Roche's press releases) that a full-scale takeover will boost success for a combined Roche-Genentech construct. Schwan reassures that Roche will "*nurture Genentech's unique science-driven culture*" and promises that "*the Genentech Founders Research Center will operate […] independent within […] Roche to safeguard […] different approaches and to foster the long term flow of novel breakthrough medicines.*"

Nice words. Time will tell if Roche is capable of sustaining Genentech's magic.

Meanwhile, the struggle to retain Genentech's crucial employees (and effectively its core values) has begun. Genentech's executives recently revealed plans to spend up to €250 million on retention bonuses to keep its workforce on board. The bonuses cover nearly all of Genentech's 10,700 employees and will be paid regardless of whether the planned acquisition succeeds or not.

Potential dependence on an European, or even Swiss, boss is almost a deterrent for American scientists. It appears that there are a lot of senior researchers at Genentech who would rather leave the company and establish their own start-ups than ever work as a Roche staffer.

Severin Schwan seems to be prepared for almost all eventualities, except for the mysterious motives of the human mind.

WINFRIED KOEPPELLE

Excitement about blood substitutes

Formidable Flop?

A bovine blood derivative is chosen as a lifesaver of a struggling biotech firm. But some say it's life threatening.

Blood substitutes such as Hemopure and Oxyglobin are sought after by anaemic surgery patients, domestic animals and fraudulent endurance athletes.

The Beijing 2008 Olympic Games are over, but open questions remain. What about the respectability of Michael Phelps' eight gold medals, and Usain Bolt's fabled records in all three sprint contests? Anyone sense the presence of a novel and unverifiable doping substance? Or were their achievements legitimate? The US-based biotech company Biopure has been involved in similar doping suspicions, most recently in 2007, when Danish Tour de France hero, Michael Rasmussen, was linked by a former sports comrade with the illegal blood substitute Hemopure.

Biopure's CEO Zafiris Zafirelis is preparing for bankruptcy.

Hemopure consists of a hemoglobin-based oxygen carrier, made from cow's blood that has been purified of red cells. It was originally designed as emergency blood substitute. At present, Hemopure has only been approved for human use in South Africa. Similar products, such as Polyheme, have been developed by several companies. Such medications are often said to be misused by endurance athletes to boost their performance.

Amongst all this whispering, Hemopure-maker Biopure is seeking a new clinical trial for its controversial blood substitute, taking place in patients with Acute Myelogenous Leukemia (AML). It is the last chance for the company that has had enormous problems in the past. The FDA rejected a request in 2006 to test Hemopure on civilian patients, concluding that the risks exceeded the potential benefits of the trial. It was the 4th time that the FDA had blocked projected Hemopure trials.

Biopure's CEO, Zafiris Zafirelis, admitted that his company has "pressing financial concerns" and laid off 50 employees, equivalent to half of its staff. With just €1.2 million in cash, Biopure urgently needs new capital. Now the company is in a catch-22 situation. Without a successful trial leading to early approval, it won't receive additional funding. However, there is another serious problem: A recently published paper noted a heightened risk of death and heart attack for patients taking part in blood substitute trials.

Zafiris Zafirelis recently said that he is "*very excited [...] initiating a new clinical trial with Hemopure*". He certainly is, in the light of his company's precarious situation. WINFRIED KOEPPELLE

Roche buys Mirus and Arius

Change in Strategy

Roche abandons HIV research and turns to new pastures.

Alarming news for those infected with HIV. Swiss pharmaceutical company, Roche, is to abandon its HIV research division. According to a *Reuter* report, the company didn't perceive any prospective benefit, disclosing that *"none of [our] pending [HIV] medicines represent significant improvement over existing drugs"*. Roche's celebrated fusion-inhibitor Fuzeon, launched in 2003 to a huge fanfare, and all remaining marketed HIV drugs, aren't affected by Roche's measure. Fuzeon never lived up to its promise. Too costly, compared to other HIV drugs, it yielded a scanty €180 million in sales last year.

The measure is an evident defeat for Roche, which appears to be painfully embarrassed. As *Reuter* communicated, Roche declined to specify how much they have invested in HIV research as well as how many employees worked in the HIV research division.

In any case, the Swiss don't hang around. In addition to Genentech (see article on the left), Roche recently acquired the US-based RNAi therapeutics developer Mirus for €85 million, and the Canadian antibody drug developer Arius for €129 million. -WK-