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## Drug Castoffs Lure Venture Funds

By [BRIAN GORMLEY](#)

Some venture capitalists see gold in the drugs that pharmaceutical companies cast aside.

Venture investors recently have spun start-ups out of Pfizer Inc. and Roche Holding Ltd., and several aim to form additional companies around big drug firms' unwanted medicines.

Drug manufacturers once feared embarrassment if they let go of an asset that turned into a success. But through mergers and internal discoveries, most have now accumulated far more drugs than they can develop. Instead of letting them idle, many companies are looking to sell or license them out.

That creates opportunity for venture firms, which can capitalize on the investment poured into these molecules and offset the risk they take with raw start-ups.

In December, for instance, venture firms acquired an antibiotic from Pfizer that has been tested in more than 1,000 subjects. The investors—Aisling Capital, Canaan Partners, Domain Associates, New Leaf Venture Partners and Sofinnova Ventures—now plan to drive this drug, dalbavancin, through late-stage clinical trials.

The deal also benefits Pfizer, which received a one-time payment and a \$556 million tax benefit. Pfizer, which acquired Wyeth in October, also shed a noncore asset.

"Whenever you put two large companies together, it's impossible to progress all the programs in the combined portfolio," said David K. Rosen, Pfizer's executive director, worldwide business development. "We're very committed to seeing medicines developed, whether it's done by us or by others, but the formula has to work."

Finding a formula that works for everyone is often the tallest hurdle.

Pfizer doesn't have a stake in the start-up formed to develop dalbavancin, Durata Therapeutics Inc., but drug companies frequently seek some way to share in a drug's downstream value.

"The most difficult part in the negotiation is the pharmaceutical company's desire to keep their claws or their hooks into the compound," said Arthur M. Pappas, managing partner of Pappas Ventures, "so if we do hit a home run, they've got the ability to bring it back."

Mr. Pappas, Domain, New Leaf and Third Rock Ventures found a solution while spinning Afferent Pharmaceuticals Inc. out of Roche late last year.

Roche has a minority interest in Afferent and stands to earn milestones and royalties as the spin-off's pain therapeutics advance.

While Roche has a right to see Afferent's clinical data, it doesn't have a right of first refusal to buy the company or gain access to its drugs, said Afferent co-founder Anthony P. Ford, also its chief scientific officer. That way, there is nothing to stop Afferent from negotiating with other companies.

"Afferent [is] a fully private company, the control is in the hands of the investors," Mr. Ford said.

Afferent's investors didn't gain that control easily—the spin-off took nearly two years. But while persistence is key to the successful spin-off, so is imagination.

In 2003 5AM Ventures, Delphi Ventures and others spun Symyx Therapeutics Inc. out of Symyx Technologies Inc. to fashion non-absorbed, polymeric drugs from technology Symyx had to put to non-pharmaceutical uses.

The thinking paid off, as Amgen Inc. bought the company, which changed its name to Ilypsa Inc., for \$420 million in 2007.

Later that year, 5AM, Delphi and others spun the Ilypsa technology out of Amgen to form yet another biotech concern, Relypsa Inc.

"The whole concept [is] to leverage past investment by somebody else and apply it in a new way," said Scott M. Rocklage, a 5AM managing partner.

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