Meet Merck's Dealmaker: A Conversation With Roger Pomerantz

Merck's new head of worldwide licensing and knowledge management Roger Pomerantz, MD, talks with IN VIVO *about Merck's business development strategy, whether biotech passion can exist on a Big Pharma scale, and the art of the deal.*

BY CHRISTOPHER MORRISON

On December 1, 2011, **Merck & Co. Inc.** introduced Roger Pomerantz, MD, as its new SVP and head, worldwide licensing and knowledge management.

Pomerantz replaces David Nicholson, PhD, the Organon and then Schering-Plough executive who had led business development at Merck since late 2009. (*See"At Merck, Business Development As Usual?"* — IN VIVO, *March 2010*.) Pomerantz joined Merck in 2010, as head of discovery and development strategy for infectious diseases, and, for the time being, he remains in that job as well. An infectious diseases physician by training, Pomerantz is a former chief resident at Massachusetts General Hospital who pursued postdoctoral research in molecular retrovirology at Harvard Medical School and the Whitehead Institute at Massachusetts Institute of Technology. While at MIT, working in the lab of Nobel laureate David Baltimore, he met current Merck R&D chief Peter Kim, PhD. After 15 years in academic medicine at Thomas Jefferson University, Pomerantz spent five years as president of Johnson & Johnson's Tibotec anti-infectives subsidiary. Despite his academic and industry resume, "he likes to refer to himself as a simple country doctor," jokes one Merck executive about the accomplished Pomerantz. "Are you kidding?"

The self-effacing Pomerantz vaults to the top of the business development pyramid at Merck at a tricky moment for Merck and for the industry more generally. As Western markets for innovative drugs wane as pharma's main source of growth, the twin opportunities of biosimilars and emerging markets – each a significant bet for Merck, even when measured against its industry peers – remain amorphous. The integration of Schering-Plough is for the most part in the rear view mirror, but the $42 billion deal continues to take a toll. In late July 2011, the company said it would trim head count by an additional 12 to 13% by 2015, beyond the initial cuts projected post-merger. (*See"Merck Plans To Shed 13% Of Work Force By 2015"* — "The Pink Sheet" DAILY, *Jul. 29, 2011*.) Though pharma's macro troubles cannot be discounted, Merck has also been disappointed by several key Schering assets.

Vorapaxar, a potential blockbuster antithrombotic and not a small part of Schering's charm, was at best badly hobbled by a January 2011 Phase III safety signal. (*See "Intracranial Hemorrhage The Culprit In Merck's Vorapaxar Trial"* — "The Pink Sheet" DAILY, *Jan. 20, 2011*.) *Victrelis* (boceprevir), a second bright star in the Schering firmament, succeeded in the clinic and reached the market in May, but so far it has been outperformed by **Vertex Pharmaceuticals Inc.**'s rival *Incivek* (telaprevir). Still, Merck is forging ahead with plans to better integrate its internal and external endeavors, earmarking $500 million for two new venture initiatives, and maintaining an overall $8 to $8.3 billion R&D budget for 2011 – the top end of which was down only $100 million from earlier estimates at a time when others' R&D budgets are shrinking more drastically. In fact, Merck management has been perhaps the most vocal cadre of industry executives chafing against short-termism in the markets and the idea that large pharmaceutical companies ought to significantly cut R&D budgets, or even abandon earlier-stage research altogether.

"We don't have a forest for the trees problem at Merck," Pomerantz noted during an interview with *IN VIVO* at Elsevier Business Intelligence's *Therapeutic Area Partnerships* meeting in Boston, December 1, the day his appointment became official. He was specifically referring to the company's focus on combination therapy, and the idea that an overreliance on a single component could exclude a company from the best overall treatment package. But his remark seems to reflect a philosophy that is exemplified by what he sees as Merck's key advantages: a big picture mentality and a long-term view.

Executive Summary >> 81

IN VIVO: ***You entered Merck as the franchise head for infectious diseases only 18 months ago after several years at Tibotec. What did you pick up in those roles that has prepared you for this new one?***

Roger Pomerantz: During the five years I was at Tibotec [**Tibotec Pharmaceuticals Ltd.**, a division of **Johnson & Johnson**'s **Janssen Pharmaceutical Co.**'s **Janssen Pharmaceuticals Inc.**], we have eventually launched four drugs and drug combinations, which I'm pretty proud of for a relatively small group of 600 or 700 people. After Merck's acquisition of Schering-Plough I was asked to come over and take over what is the largest and most diverse infectious disease franchise in the world, and I thought that would be a lot of fun, so I did. And I was busy having a great time in ID when I got a call asking if I would now take over licensing and acquisitions at the corporation. And I thought about it. I love ID but thought that there's enough of a tipping point here in large pharma where I could have a broad impact. We'd done some value-creating deals at Tibotec, including the telaprevir deal with Vertex, the TMC435 deal with Medivir [**Medivir AB**] , and recently announced the fixed dose combination of rilprivirine with *Truvada* with Gilead [**Gilead Sciences Inc.**]. So I had some background in [dealmaking] and had done some things at Merck and thought this was an opportunity to have a big impact.

Q: ***So given that you've been involved on the deal side already at Tibotec and to a certain extent at Merck, what kind of transition will this be for you?***

A: It's one thing to do deals at a medium-sized biotech company. It's another thing to bring a large company to a small company or a large company to a large company, so I anticipate the structure of things to be different, and I have a learning curve there. But I know a lot of people in Merck and they're a great group to work with on the corporate side as well as on the MRL side. I'm hoping that with my background and with a little help from my friends it won't be too hard.

Q: ***How does your background – both as an infectious disease specialist in academia and industry but also as president of Tibotec – inform the way you look at deals and the process?***

A: So I'm a big believer, to misquote Donald Trump, that the art of the deal *is* the deal. You actually have to be in the room, talking to people, understanding what is necessary to make this work. The oft-quoted "win-win" is really critical in these things. People make deals, just like people make drugs. You have to be able to do strict due diligence and be able to understand what you're buying or allying with, but at the end of the day the deals themselves and the structure of the partnerships that roll out of them happen during the discussions, usually in small groups of people who understand the needs of their corporations and are able to come to some sort of commonality. There's no template. A willingness once you've decided on a scientific, medical and marketing level that you want this deal to be done, not at any cost – there are levels and amounts of money that we won't spend, and we've learned that – but once you've decided that, then the question is, how do you make it work? And that's the rub.

You learn, in biotech, how to do that. I don't want to make Merck's business development alliances, licensing, acquisitions like biotech exactly. You can't do that. But you can make a chimera. Take the strength of biotech ideas and the power of large pharma and put them together. If you do that right, small company passion combined with large company power is a good chimera. That's part of the answer, part of our step out of the issues and challenges that large pharma finds itself in: to learn from the small- and medium-sized biotechs but not to get rid of the things that make these large multinational companies strong. There are certain things each group does well, and if we can fuse them, especially in business development, it will be a big step forward.

"He likes to refer to himself as a simple country doctor," jokes one Merck executive about the accomplished Pomerantz. "Are you kidding?"

Q: ***But is passion scalable to large company size?***

A: I absolutely believe it is, if you don't try to say "OK guys, you've all gotta be passionate, so we'll have a passionate seminar about passion." You want to set up groups of people, franchises like we did at Merck, of highly concentrated, thoughtful people who know an area and want to be there. That's what a chimera is – and then you grow this. It's scalable, but only if you parse out the large company into smaller areas. If all seven areas are passionate, you've got a passionate company. How do you do that in large pharma? Well, you have certain areas of functionality, which are large areas that overlap everything and then you have smaller pockets – whether they're franchises or business units or whatever you want to call them, however you want structure them – that stay focused and have a high level of biological expertise.

Q: ***Are these smaller groups then positioned to compete for resources?***

A: We are trying to get past over-advocacy and over-competition. Competition is good. But over-competition removes the synergy you get in a large company.

Q: ***But what's the line?***

A: I can't define it but I know it when I see it, as Judge Potter Stewart said. And what you have is what we're trying to do … business development, licensing and acquisitions and the fran-

chises meet in one committee. They're subsumed in one area that we call global scientific strategy. I'm still a franchise head, doing the ID job, so I know the strengths of that, and I also see now and have seen, when I ran Tibotec, what the weaknesses of over-competition and over-advocacy can be.

So, you bring [business development and R&D functions] together into one area where you agree that we are agnostic as to where drugs come from. Whether that's outside or inside doesn't matter. As long as it's good for patients and makes a fair profit for the shareholders, we should be agnostic to where [an asset] comes from. If we are, the people who are worldwide discovery heads and franchise heads have to be as involved with the external pipeline as they are with the internal pipeline. And they are now at Merck. We're moving these people to work with licensing, acquisition, business development. They are going to be part of the organization.

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You're going to see these scientists at conferences like the big JPMorgan meeting. Part of the way out of Big Pharma's problems is that you can't expect any company, even as large as Merck, to do everything internally. We need to leverage our scientific and medical expertise. Those are our strengths. You bring these guys together with business development, you make them part of the whole pipeline – external and internal innovation – and be pragmatic about what diseases you're going to look at.

As for how do you keep each of the franchises from over-competing, you put them in one group, you make them have the bigger Merck hat and not just the franchise hat, and reward them for that. You make it so they are incentivized to see themselves as a full, partnered shareholder.

Q: ***So you're not imposing a BD worldview on the R&D side, you're bringing R&D to BD?***

A: I wouldn't even say it that way. We're all part of the same crowd now. BD and internal gets weighed the same way. We're in a zero-sum game now, at least for large assets. If something comes in, something has to go out. At the end of the day we want to make the best portfolio we can, and we're agnostic to where it comes from. We're not bringing R&D to BD or BD to R&D. We're trying to make a chimera, so that both things are happening at the same time. These hard walls either become porous or melt away entirely.

Q: ***From a BD perspective, what has Merck done well until this point and what has it struggled with? Are you bringing a new mind-set to the group to help improve those areas?***

A: Merck has had some very good early- and late-stage alliances and deals that are novel. For example, we worked with Medarex and Mass Bio – I know the ID space the best so I'll use that. We bought monoclonal antibodies in to Clostridium difficile, the major cause of diarrhea in hospitals in the US and Western Europe, over half a million cases in the US. And patients who get it have a 20 to 30% chance of recurrence. So we did a deal and instead of only looking for antibiotics, we looked, for the first time, at monoclonal antibodies – the first time a biologic would be used, if we get approval, in a bacterial disease. And it was shown in Phase II, as reported in a *New England Journal of Medicine* article, that we can decrease 72% of recurrences with one injection. Now that is a great, out-of-the-box deal. We've gone into Phase III as of a month ago. It wasn't thinking "What antibiotic are we going to look at?" but "How can we do something that's novel in this space?" That we did well.

So Merck's not afraid to take a risk on a novel agent at an early stage. And we're not afraid to take a risk with an unusual alliance at a later stage. We allied with **Roche** in HCV. Nobody saw that coming, the companies were head-to-head competitors in interferon. We came together with Victrelis and now with Roche's [HCV polymerase inhibitor] mericitabine. Sometimes these interactions make strange bedfellows, but they make a lot of sense so long as both companies can get in the room and decide what they can work together on, how to make it work. We think it's going very well.

The things we can improve on are probably the same at any large pharmaceutical company. We need to make it more biotechy, we need more rapid and more flexible decision making. We need flexibility in time but also flexibility in deals. That's what a large company sometimes forgets. Dealmaking's not just about molecules. It's about time, too.

Q: ***Has Merck missed out on a deal because it was too slow?***

A: I'm too new in the job to tell you what it was, but I'm sure we have. A biotech can move forward with alacrity. You can't do exactly the same thing at Merck; you can't put two guys in a room and make a decision and then make the deal. But you can make it more flexible and more rapid.

Q: ***Is that a matter of empowering people further down the chain to make a decision, or pulling together the scientific strategy committee quickly? Empowerment or literally speed?***

A: It's all of those things. Speed and being empowered to make fast diligence decisions and getting teams together quickly – a SWAT team when necessary, for analyses. Those are key and we are doing that. The other thing you need is gravitas. You need pull from the top. If you're going to change organizations from being only internally focused to being agnostic and externally focused as well, you need your executive committee, your CEO, your head of research and development; you need all of them to be aboard and giving clear, direct messages: this is how we're going to play. They need to support it and make sure we have the resources and move the organization to get that done. I believe at Merck, one of the reasons I took the job, I believe that's absolutely clear.

Q: ***Do you have a set percentage of your pipeline that you think should come from external sources versus internal?***

A: I have no set number. If you have a very productive few years internally, well maybe you need less from outside. If you have lower productivity you'll need more. On average it'll be a very substantial part of any portfolio. Not only because you need it, but because you want it. Innovation does occur throughout the world, and if you stay focused on your own pipeline you might be good but you won't be great. You'll miss that huge part of the pie that's outside.

Q: ***Will BD be more important to certain therapeutic spaces than others? Is there an area you need to build through external activity?***

A: Not at all. We have ongoing projects for both licensing and acquisitions in all of our therapeutic areas. All six small-molecule areas, large molecules and vaccines. Certainly, if you do a late-stage cardiovascular deal it'll be significantly larger than … I was going to say ID but we just saw the Gilead/Pharmasset deal [Gilead paid $11 billion for **Pharmasset Inc.**]. But for the most part you can see where the larger, more resource intensive deals might be.

Q: ***Merck has made an explicit commitment to pursue only first-in-class [FIC] molecules or best-in-class [BIC] molecules. How does that affect the worldview for BD in terms of what your remit is?***

A: We can go after best-in-class or first-in-class, or best-in-class fixed-dose combinations. That's the other thing that people miss. In ID or oncology, in diabetes and other areas, sometimes it's not the best drug that wins, or the first drug, but the best-in-class or first-in-class fixed-dose combination. There are examples of that already. When you think about that it doesn't always have to be a drug. BIC or FIC can apply just as well to the combination as the drug itself. A best-in-class drug might not win if it's not combinable with the two other drugs you need for the best combination. So you have to be careful that you don't have a Pyrrhic victory – the best-in-class drug but not the best combination.

It's like the US Olympic basketball team of 2004 – full of superstars who couldn't play in the same sandbox together. You have the best guys there but they were beaten three times [and lost to Argentina in the semi-final]. We don't have a forest for the trees problem at Merck. We'll keep our sights on what the best combinations are.

Q: ***Your predecessor David Nicholson implemented several mechanisms by which to go after external opportunities earlier in the value chain, for example, the Merck Research Venture Fund. Will you continue to push in that direction?***

A: Merck is looking at ways to get in early, to figure out how we can interact, move some of these companies forward with fund investments or direct investments, and then also as a way of getting our own people trained and understanding the venture space. Our worldwide discovery heads are going to go to JPMorgan. They're also, with our franchise heads, going to evaluate the companies and funds we look at here. Again, we're going to try to be true to what I said before, leveraging the deep biological and medical expertise in the different franchises to help us make well-informed picks in how we invest the shareholders' money in the venture fund. (*See "Merck's Capital Idea*: *Industry's Latest Push to Strengthen VC Ties"* — IN VIVO, *September 2011*.)

Q: ***But why does Merck need new mechanisms to go earlier, why not do the kind of deals you've always done with academia or biotech?***

A: I think that we in large pharma have lost the Goldilocks zone. We have no "just right." We have too early, too risky. Late is too expensive. We need to figure out how to get back into seeing a lot of companies in our Goldilocks zone. Those sweet spots are probably just pre-POC. Not post-, that's always easy. If you can pick out the company – and I know you can do this, I've been involved in it sometimes when it's worked – that's when you have your best bang for the buck in what you can contribute to shareholder value and in getting the drugs to patients that are really needed.

But to do that you have to understand the technology, understand the companies, be involved early and help to move them toward what a POC might look like. That's the other part of this. People define POC differently – they'll come to you and say "We have a POC," and Merck will say, "Well, it's not a Merck POC." We'd like to be able to change that. To have a microscope on the company. We're not in it just to make money as a financial investor, but to have that microscope to look into the companies and be able to dissect which ones are going to be the next winners.

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Q: ***You've talked a lot about the importance of flexibility … Merck is involved in some interesting deal structures but also has some interesting partners in terms of consortia and pre-competitive alliances. Is there a Goldilocks zone for what a company needs to invest its own money in and own?***

A: As opposed to thinking of it as a pre-competitive commodity? We're interested in that. It's a model that's tantalizing but it hasn't shown that it can work yet. But we'd like to be involved in it and as you see that we're looking at novel approaches, in a variety of different spaces. Stay tuned, we're not done yet.

Q: ***In terms of prioritization of internal and external assets, how does Merck compare with its peers – both in terms of how molecules stack up and what you do when something doesn't make the cut?***

A: I don't want to comment on what others are doing. What

we're doing is more focused and disciplined than it was before. There are no zombie drugs, drugs that are dead but still walking around. That was a problem in large pharma wherever you go, because of a lack of discipline drugs that aren't stopped or aren't out-licensed. At Merck we didn't always have the most disciplined approach, but we're very disciplined now. With this fiscal and regulatory environment, we have to be disciplined. Everyone tries to wear the large Merck hat so people aren't over-advocating for certain drugs. You cannot, in this environment, have compounds you're not 100% behind.

Q: ***So we should look for an uptick in out-licensing?***

A: We have certain things that might not be good for a worldwide launch but could be great for a regional deal. For other compounds, out-licensing via [head of global outlicensing and asset management] Meeta Chaterjee's group may be exactly right. Pick a country in eastern Europe, or the developing world or the BRIC countries, it could be a very important drug, help a lot of people and make a lot of money for the company that buys it. There are molecules that are never going to become drugs. There are others that Merck wants that will definitely become drugs. And there are also drugs that may not be perfect for Merck's pipeline but are still absolutely viable equity-producing agents if you target the right markets. And that might be through out-licensing.

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I'm very passionate about out-licensing. It's important to take a biotech-like, never-say-die, never leave a drug behind approach to it. I look at programs like tomatoes in a refrigerator. They are beautiful, but if you leave them there they'll rot. Their IP [intellectual property] degrades over time; their innovation window is closing. I want someone to eat those tomatoes and pay us for it. We have to look at it with a sense of urgency. Even when it's not clear we're going to make a profit on it, we should try to find a way to create value for shareholders and patients.

Q: ***It sounds as if you're quite open to regional dealmaking.***

A: Yael Weiss [director, licensing and external research] is the person who runs that now. is the person who runs that now. We're very into regional deals. If it makes sense for patients and for the shareholders we'd like to do that. In certain areas, even the diseases themselves change. I kid Mike Mendelsohn, our head of cardiovascular research, that a heart attack in Bangkok is the same as a heart attack in New York. But a pneumonia in Bangkok is completely different than a pneumonia in New York. All ID is local. A lot of oncology is local. A drug that may not be great for a worldwide launch could be a hugely important drug in certain areas based on this locality of disease.

And this leads me into how we're going to treat the emerging markets. We're looking to have a venture deal in the emerging markets as part of our venture fund. The other things that we're doing are regional deals in emerging markets. Looking at how disease states differ in countries in emerging markets versus our classic markets that we've thought about in the developed world. It may be that the disease is different, that the patient population is different, that the payor and regulatory processes are different. One size doesn't fit all.

Q: ***Finally, is there anything in particular that surprises you about your new job?***

A: How many people want to talk to me.

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