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Adimab's Gerngross seeks two sweethearts

Adimab, the firm that over the past couple of years has been quietly signing up a large section of the big pharma community to "test-drive" its yeast-based rapid antibody discovery technology, is gearing up for the next stage in its business.

Co-founder and CEO Professor Tillman Gerngross, who sold his yeast-based production firm GlycoFi to Merck for $400 million a few years back, spoke to *Scrip* about the company and its plans, following on from the firm's most recent partnership deals with Biogen Idec and Novo Nordisk (scripintelligence.com, 31 August 2011).

Until now, Adimab has focused on getting big pharmaceutical companies to try its technology, without resorting to heavy sales tactics. "Our business development group has exclusive instructions not to bother people. We rarely speak at conferences, we definitely never go to investor conferences. We just do really high quality work and announce a lot of deals, and it's the word of mouth, people recognising we're taking the oxygen out of the room, that is driving the business," said Professor Gerngross.

The firm has had considerable success with this approach: it started partnering around two years ago, in mid-2009. That year it booked five partnership programmes. In 2010 it doubled that, booking 10 programmes, and it has already booked nine so far this year. "I'm pretty certain we'll double it again and end up this year with around 20," said the CEO, with his trademark calm confidence.

So far so good, and the income from this type of deal is healthy enough that Adimab is already a self-sustaining business – "cashflow neutral to cashflow positive depending on the quarter", according to Professor Gerngross. But with the growth in partnering deals expected to start petering out, Adimab is hoping to convert the tester-type deals that it has hitherto signed into comprehensive agreements with existing partners. Professor Gerngross is confident that it will be able to sign two of these within the next year.

There is no doubt in his mind that Adimab's technology, which can deliver whole, fully human, producible antibodies to a given target in eight weeks, and not just deliver the antibodies but establish which are therapeutic leads, is an extremely powerful, game-changing technology. "If you want to play the antibody game and you don't have this you are most likely going to get beaten by someone who does have it. Because typically more than one company is going after each hot target, and if you are using other technologies there is no way you can compete with someone that is using our technology," he declared.

The company is keen to ensure its partners appreciate the superiority of its technology before signing up to a full partnership, hence the focus to date on "test-drive" type deals in which a big pharma partner provides two targets for Adimab to find antibodies against.

"What we try to do is make sure that the customer, our partner, is really comfortable. Typically they have other technologies – phage technologies, in vivo technologies – in house, and they give us their real problem children: the targets that have failed with everything else. And when we routinely demonstrate to them that it doesn't matter what you give us, we will give you therapeutic leads, it very much gives them comfort that this is something different to what they've had before," Professor Gerngross said.

The idea is that, by offering these limited "test-drive" partnerships initially, Adimab will be able to charge more for more comprehensive agreements further down the line. "Once you see how great it works, then those price discussions become a lot easier," explained the CEO.

In fact, several of its current partners – the list includes Roche, Lilly, Merck & Co, Pfizer, Novartis, Genentech and Human Genome Sciences as well as the two recent signings – are in talks with a view to taking the technology in-house and acquiring their own libraries, he said.

asset scarcity

As well as relying on the fact that these partners in theory will already appreciate the benefits of the technology, Adimab has another technique for commanding the best possible deal terms: asset scarcity. At present the firm has two unique libraries sitting its fridge available for transfer to partners that sign up to take the technology in-house (unlike other antibody discovery firms, Adimab envisages giving each partner its own exclusive library – comparable in size to Morphosys's HuCAL Gold – which would mean that if one partner ran the same

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campaign on the same target as a different partner they would each find different antibodies).

"The first two get a sweetheart deal. What happens thereafter is a little bit more uncertain," said Professor Gerngross. While one possibility is for Adimab just to create more new libraries and have more big pharma companies take the technology in-house, Adimab's investors are keen to ensure that the firm is able to extract maximum value from its technology, and this may not be the best way to do that.

"Our investors are saying 'this technology is extremely powerful. We would like to spin off companies that actually do drug discovery and deploy more capital into those companies. Why would we give this away? Let's give this to two and then let's not have any more libraries at all.' That's one way of going forward, right? Another way is saying let's enable everyone in the industry. I don't think we've reached a definitive answer," he said.

In fact, the company is already exploring the possibility of capturing value through drug discovery activity, albeit while keeping such activity at arm's length from its core business. "You have to stick to your knitting and pick one thing that you're going to be the absolute best at. We're not going to go into drug discovery: we're not good at picking targets, and we don't know what big markets are," cautions Professor Gerngross. Nevertheless, the company's investors have begun experimenting with capturing that downstream value through a particular type of transaction, in which they invest in a separate firm which is granted access to Adimab's technology for the cost of labour, rather than through the payment of upfront fees and milestones.

The value capture for Adimab is linked to success: it will have a large share in the ownership of the molecule and therefore a stake in the success of any resulting marketed products. However, Adimab itself has no exposure to the risk of failure. Its first effort in this area is with Arsanis, an Austrian firm focused on antibody therapies for infectious diseases that was founded by Professor Gerngross himself.

no rush to the exit

Meanwhile, Adimab is unusual in that it is not bound by its investors' desire to accomplish an exit, something that sits well with Professor Gerngross's own attitude towards success. "Nobody can predict how you can exit a company. I personally think it is much more important to focus on creating value, and when you have something valuable there are many ways of monetising it."

The fact that Adimab has been restructured as an LLC, or a partnership in which the investors, employees and founders are equal partners, means that major proceeds going into the company can be distributed out to the shareholders tax-efficiently, removing the pressure to launch an IPO or achieve a sale. "This has allowed us to think a lot more about long-term value creation, as opposed to what most venture-backed companies do, which is to try to find an exit strategy, a way of liquidating. We're completely uninterested in that. We're not raising money, we don't need more money, so we're very patient and we are primarily interested in creating long-term value," Professor Gerngross explained.

Adimab is secretive about the exact amount of money that it has received to date, but Professor Gerngross revealed that it had taken "less than $30 million" from investors. Despite this, the most recent financing round "was done at a pre-money valuation of $520 million". Its backers are Polaris Ventures, SV Life Sciences, Orbimed Advisors and Google Ventures. It has received "tens of millions" in revenues from deals signed to date.

So what are the threats to the business, and how is Adimab addressing them? "The tension right now is not with new technology. We don't see anything that's likely to be competitive on a performance basis," said Professor Gerngross. For him, the challenge is to break down the barriers to entry represented by existing relationships between older antibody technology firms and big pharma partners. "The Dyaxes, the Morphosyses of the world. They've sort of run their course and I wouldn't say they are competitors on a performance basis, but they are very much entrenched in the industry and they've been around for a long time." Patience is Adimab's approach here: it establishes discussions with pharmaceutical companies and waits for them to "realise they need something better". Recently announced deals are the fruit of three or more years' talks, noted the CEO.

Separately, the company has considered "what technology could put us out of business" in the longer term, and is working to get ahead of the game. "One thing we believe is that the power of computation and more and more targets relevant in drug discovery being known from a structural perspective open the door of drug discovery taking place on a purely computational level." To this end, Adimab has a small team on the West Coast working on in silico discovery in collaboration with Google. "This is a challenging problem that people have been working on for many decades, but we have, I believe, particular insight through the particular partnership with Google that allows us to do things that I think other people are going to find very hard to do," stated Professor Gerngross.

It appears that Professor Gerngross has plenty to keep him busy, and although a sale of the company like that of GlycoFi to Merck & Co should not be ruled out in the future, it would not seem to be on the cards yet.

"When I start something it is really important for me to bring it to a conclusion where it is very clear that it was a huge success," he declared. "There's no question that the stars are aligned and that we've been doing extremely well. But the real validation is to have drugs in the clinic, to have patients treated and to have a really large fraction of the industry using our platform to discover drugs. That's an ambition that I don't feel I have fully fulfilled yet and so I'm going to have to stick with it for some time yet."

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