Lemur Biotech Part 2: The Burden of Options

Decision Time

For most of the past four years, the development program for LEM-001 had occupied the vast majority of Richard Fossi's professional attention. However, it was not the only asset in Lemur Biotech's portfolio. Three years earlier, Richard had received an unexpected call from Mitzi Freund. Mitzi was a senior partner at Tar Heel Life Ventures and had been on the board of Lemur Biotech since the company's earliest days.

Mitzi had explained to Richard that she was in a position to provide the company with an exceptional opportunity. The opportunity was related to Respergeld, another company in the THLV portfolio; one that was being purchased by a large pharmaceutical company. The large pharma was singularly interested in Respergeld's lead program, an innovative treatment for Chronic Obstructive Pulmonary Disease (COPD), and had been dismissive of assigning any acquisition value to the company's early stage programs. Frustrated by the inability to gain an increased offer, Mitzi had convinced the buyer to allow Respergeld to out-license selected programs concurrently with the closing of the acquisition. She suggested that there would be real value to Lemur in taking on the development of RGELD-22, a preclinical treatment for pulmonary fibrosis.

Behaving like the "force of nature" that she was often called, in a matter of four weeks, Mitzi was able to extract RGELD-22 from the Respergeld deal and convince Richard and the Lemur board to take on further development of the program. Even more impressive, Mitzi had placed RGELD-22 in Lemur's hands with no upfront payments, merely a commitment for tiered royalties if the product were ever commercialized.

Initially, Richard had been pleased to have the expanded portfolio. In time, however, RGELD-22— through a series of clinical successes—placed a burden on Lemur. Damned if Mitzi hadn't been right about the compound's potential. No longer a low cost research knickknack, RGELD-22 was reaching the point where real clinical investment would be necessary. This was occurring at a time when Richard knew he needed to begin investing in alternative formulation programs for LEM-001.

Even after a series of successful experiments, one thing remained constant about RGELD-22. The financial analysts responsible for Lemur placed exactly the same value on the program as the large pharma negotiators had—zero. Richard felt this was grossly unfair, but he also recognized that financial analysts like simple stories. He concluded that it was just too easy for them to focus

exclusively on Lemur's lead product. Having a compelling origin story on the lead compound—one that lent easily to cocktail party conversations—didn't help Richard's effort to gain attention for RGELD-22.

Given the level of challenges he had received in his early financing discussions; Richard became increasingly aware that he was going to need back up plans. The budget for RGELD-22 for the next two years was over $8 million. It would be natural to cut these expenditures if funding activities did not meet his targets. Of course, Mitzi saw the early clinical successes for the product as a real victory. She had told Richard that she couldn't wait for the product to reach a point where she could parade it back in front of the large pharma negotiators who had refused to see the product's value. Even better, she hoped the day would come when she could license RGELD-22 to them at an extreme mark-up.

Richard had retreated to the office he maintained in his Outer Banks cottage. He sat at his desk and scribbled his options on a yellow legal pad. He felt a profound lack of confidence as he reviewed the rationale for each option. There was so much uncertainty associated with each investment—clinical, CMC, commercial. Was it possible that even at this early stage for Lemur Biotech he needed to establish a portfolio review process, one that provided structure in gathering input from the experts in each functional discipline and facilitated comparisons across programs?