

Industry veteran **JOHN T. SPITZNAGEL** is taking his extraordinary **business perspective** to turn emerging **ESP Pharma** into a thriving specialty pharmaceutical company

# NEW HORIZONS

**EARLY ON IN HIS CAREER, JOHN SPITZNAGEL SET HIS SIGHTS ON ONE DAY RUNNING A HEALTHCARE COMPANY. IN MAY 2002, AS CHAIRMAN AND CEO OF ESP PHARMA, HIS VISION BECAME A REALITY ONCE AGAIN.**

Mr. Spitznagel already has proven that he has what it takes to drive a company to success, having engineered the dramatic turnaround of Roberts Pharmaceutical Corp. Now, with a team of trusted and experienced executives at his side and a healthy sum from a syndicate of well-respected venture capitalist firms behind him, his goal is once again to deliver a winning formula, this time for ESP Pharma, a newly formed specialty pharmaceutical company focused on acute care of chronic diseases.

Since taking the helm at ESP Pharma early this year, Mr. Spitznagel has put together a strategy to leverage the company to become a leading developer and marketer of specialty drugs for the chronic disease and hospital markets.

"The goal is to create an entrepreneurial, thriving, growing specialty pharmaceutical company that is focused on finding and acquiring therapeutic agents that are important but are essentially too small for big pharma to promote aggressively or promote at all," Mr. Spitznagel says. "The equation is simple: define what the company is good at; focus on those products that fit within its expertise and strategic interest; and focus on revenue goals, the bottom line, and earnings per share."

In a very short time he has helped the company reach some significant milestones. Mr. Spitznagel has been instrumental

in raising the first round of financing, \$28 million, from a syndicate of blue-chip venture capital partners, including Domain Associates LLC, Apax Partners Inc., and New Enterprise Associates. The first round of funding closed in May, after which ESP Pharma became incorporated. He negotiated a deal with Wyeth to purchase ESP Pharma's first products — Cardene IV, Sectral, Tenex, and Ismo. And he has brought on board a team of respected executives to build the company's salesforce and marketing group.

"ESP Pharma is only three months old so I don't have everyone in place yet, but it's coming together nicely," Mr. Spitznagel says. "We have two very strong sales directors with great sales experience so we're confident that they're going to have a starting salesforce in place fairly soon and we intend to have a staff of about 30 sales reps around the end of the year. We closed our funding in May. We closed the product acquisition deal with Wyeth in two phases and started our own distribution program also in May."

While the company's progress has been rapid, few who know Mr. Spitznagel are surprised at his achievements thus far. "John is a great operator," says Adele Oliva, partner at Apax Partners. "He has proven he has vision and can execute by the work he did at Roberts."

## FORMULA FOR SUCCESS

Before taking the helm of ESP Pharma, Mr. Spitznagel was the CEO of Roberts Pharmaceutical, leading the company through a dramatic turnaround in profitability and market value. He ultimately engineered the successful merger of Roberts with Shire Pharmaceuticals Group Plc. in 1999 for about \$1.2 billion, a nearly four-fold expansion in Roberts' market value during his tenure. How he achieved this is testament to his innovative business skills as well as his ability to rally his staff.

"The key to the success of Roberts was having the right people in the right jobs all pulling on the same oar, and getting everybody to buy into the business plan," Mr. Spitznagel explains.

To start with, managers and employees got together in small and large groups to talk about what the company was going to do and why, and to solicit ideas. Having done that, senior management met to formulate the business plan, which then was communicated throughout the company.

"The plan was a lot more complex than it appeared, but we defined the goals fairly simply," the CEO says. "For instance we announced to the employees and to Wall Street that the company had a goal of five in five, in other words Roberts was going to reach \$500 million in revenue in five years. At the time, the company was about \$100 million, so as a team we had a way to go. Everybody had to figure out their own way to contribute to that goal. We also announced our earnings-per-share goals six quarters in advance, and explained that it wasn't just the top line that contributed to the earnings, but the things the staff did in spending and saving money would affect the bottom line. We translated it right down to how many dollars we had to save to contribute another penny to earnings. We backed that up with an incentive bonus plan. When we made our earnings goals that first year, everybody got bonuses. If there were any non-believers at that point they very quickly became believers. We also offered employees stock options, which at the time weren't worth much, but as earnings started to go up and revenue started to go up, so did the stock."

Another central ingredient was ensuring that Roberts was focused on its core businesses so, under Mr. Spitznagel's direction, the company shed several operations that were non-strategic and in some cases non-profitable.

"We had focus across the board — on product areas, strategy, earnings, and had everybody working toward the same goals," he says.

Early on in his career, Mr. Spitznagel realized that to get the motivation required for success, people needed the incentive to succeed and that meant giving people the recognition they deserve, helping keep them focused, offering challenges, and ultimately making everyone part of the solution.

"John's the kind of boss everybody hopes to have," says Stuart Z. Levine, an investor relations and communications consultant for ESP Pharma, and a former colleague and a long-time friend of Mr. Spitz-

nagel. "He's a great guy to work with; he's open to suggestions, and gives people the opportunity to excel in what they know how to do."

Mr. Spitznagel says one of his greatest talents is a fundamental people management skill, getting everyone to buy into the same strategy. He advocates making the goals simple and getting everyone focused on them.

## TWISTS AND TURNS

This people-management skill was learned as Mr. Spitznagel progressed through various companies, including Warner-Chilcott, Hoffmann-La Roche, and American Home Products, among others. He learned from watching the way his own bosses managed, whether good, bad, or indifferent.

"Over the years I have worked for a lot of people — some really outstanding managers and frankly some who weren't so outstanding," he says. "I learned a lot about the business because I was exposed to a lot of different views — some I embraced and some I didn't."

This invaluable experience allowed Mr. Spitznagel to form his own perspective as to how a business ought to be run and how to incentivize people to achieve corporate goals.

Running a healthcare company, watching the changes in the industry, the cures, preventions, and treatments made possible by drug discovery is a strong motivating force for Mr. Spitznagel. But his introduction to the pharma world happened quite by accident. After college, Mr. Spitznagel started law school, but soon decided that a legal career was not what he wanted. Through a strange twist of fate while in the process of interviewing for sales jobs, he happened into the pharmaceutical industry.

"I thought I was having an interview with Del Monte foods, and for

## Rising through the ranks

### JOHN T. SPITZNAGEL - RESUME

**JANUARY 2002.** Chairman and CEO of ESP Pharma. Organized first round of financing, helped negotiate deal with Wyeth for bundle of four products.

**MARCH 1996 TO 2000.** President and CEO of Roberts Pharmaceutical Corp. Successfully negotiated merger of Roberts with Shire Pharmaceuticals Group Plc. of the U.K. Increased market cap from less than \$300 million in 1997 to \$1.2 billion valuation at closing of deal with Shire.

**SEPTEMBER 1990 TO JULY 1995.** President of Reed and Carnrick Pharmaceuticals. Reversed declining sales to sales increase of 80% in less than five years.

**1989 TO 1990.** BioCryst Pharmaceuticals Inc. As CEO, structured a technology into a small but viable company, now publicly owned.

**1979 TO 1989.** Wyeth-Ayerst Laboratories. Increased sales more than five-fold during 10-year period, advancing from marketing director to senior VP of marketing and sales.

**1971 TO 1979.** Roche Laboratories. Winner: Ohio State Award for Excellence in Continuing Medical Education. Winner: Hoke Award for most successful direct-mail campaign in all industries in 1974. Awarded "Minuteman Trophy" from the U.S. Treasury Department for producing videotape used nationwide to sell U.S. Savings Bonds.

**1966 TO 1971.** Warner-Chilcott Laboratories (Division of Warner Lambert).

**1964 TO 1966.** Sales representative, Warren Teed Pharmaceuticals.

some reason the interview card got confused at the head-hunter agency, and I wound up interviewing with Warren-Teed Pharmaceuticals," he recalls. "Part way through the interview I was asked whether I'd think about becoming a detail rep."

Mr. Spitznagel, after having the requirements of detailing explained to him, asked "What's that got to do with selling cans of peas and corn."

Despite the now amusing miscue, Mr. Spitznagel was hired on the spot, and has never looked back. "I stumbled into the industry by accident but quickly came to love it," he says.

## TAKING THE HELM

Early on, Mr. Spitznagel set for himself the ambitious goal of one day running a healthcare company. Realizing that it was unlikely to happen

at Warren-Teed, he left and joined Warner-Chilcott, where after two years, he advanced to the position of assistant product manager.

"I was fascinated by the whole marketing concept; I still am," he says. "I was fortunate because I had a lot of very good people I studied under. I learned a lot."

Mr. Spitznagel set his sights on becoming the president of Warner-Chilcott, but the merger with Parke-Davis pre-empted that goal. He then was presented with the opportunity to join Roche, where he says he was able to hone his skills even further. For Mr. Spitznagel the opportunity to lead ESP began when Howard Weisman asked him to review the company's marketing and business plan, and consult with other company founders. Mr. Weisman, a former Parke-Davis Pharmaceuticals executive, is one of the founders of ESP and serves as president and chief operating officer of the company.

The ESP Pharma leadership team, with collectively more than 150 years of pharmaceutical industry experience, also includes co-founders S. Douglas Sheldon, Robert Bloder, Jack Kent, and Dr. Jeffery Z. Li, all former Parke-Davis Pharmaceuticals executives.

"As I got to know these gentlemen better, I realized that this was a very talented, dedicated group of people who had a fundamentally sound business plan," Mr. Spitznagel says. "I believed I could make some improvements to the plan and I recognized I was having a good time helping them to do this. It was also an opportunity for me to supplement this talented team with a talent pool of people from my former lives and bring together a very strong base for building a company."

In January of this year, Mr. Spitznagel agreed to take over the CEO role. "In the last couple of years, the funding environment has been difficult," he says. "These guys are all very talented, they're all very good, and I told them they could probably start and run the company as well as I, but I have the advantage of having done it before. So I agreed to be the CEO and we raised the money by the end of May."

Others who have since joined the management team include Louis P. Berardi as executive VP, corporate development, and chief financial officer; Anthony A. Rascio, J.D., medical director; Richard Brown, M.D., J.D.; Peggy Ference, executive director of sales, central region; Dave Iwanicki, executive director of sales, eastern region; and John (JT) Spitznagel as director of marketing.

With its focus on the development of medical treatments for acute-care patients, ESP Pharma is setting itself apart from other specialty pharmaceutical companies. The company also tries to set itself apart in its approach to acquiring products.

"Rather than go to big pharma and ask what products are available for out-licensing, we prefer to comb the product lines of big companies and look for a little product like Cardene IV, then make a deal to acquire or license the product," he says.

Where Mr. Spitznagel believes ESP has an advantage over some competitors is the number of very strong, senior-level, contacts throughout the industry that its experienced team brings to the table.

"It's very important to get to the top of an organization; get a personal meeting set up to discuss a specific product and explain why we believe it is underutilized and why we think we can make it a more accessible drug for doctors to help patients," Mr. Spitznagel says. "That's tricky stuff, but we think we can be successful, we've done it before."

Mr. Spitznagel expects to use his, and his team's experience, to set ESP Pharma apart from the competition.

## PATIENT POSSIBILITIES

ESP Pharma's goal is to position and market pharmaceuticals that are valuable to patients but that aren't getting the marketing attention necessary to keep them top of mind to physicians.

As a starting point, ESP Pharma is focused on the acute care of chronic disease and has established itself as a "buy and build, search and develop" company. ESP Pharma is targeting already marketed products that are being abandoned by their innovators because they lack the nec-

## ESP Pharma's Starting Platform

With an eye toward treating the acute care and hospital markets through already marketed products, acquired or in-licensed from big pharma, and developing late-stage compounds expeditiously, ESP already has a strong cardio platform from which to launch future endeavors.

### Cardene IV (nicardipine hydrochloride injection)

**DESCRIPTION:** An intravenous preparation of nicardipine, a dihydropyridine calcium channel blocker; patent protected through 2009.

**USE:** Short-term treatment of hypertension when oral therapy is not feasible or desirable. Cardene IV is currently the only dihydropyridine calcium channel blocker available in I.V. formulation

### Ismo (isosorbide mononitrate)

**DESCRIPTION:** A long-acting nitrate; off patent.

**USE:** Prevention of angina pectoris due to coronary artery disease.

### Sectral (acebutolol)

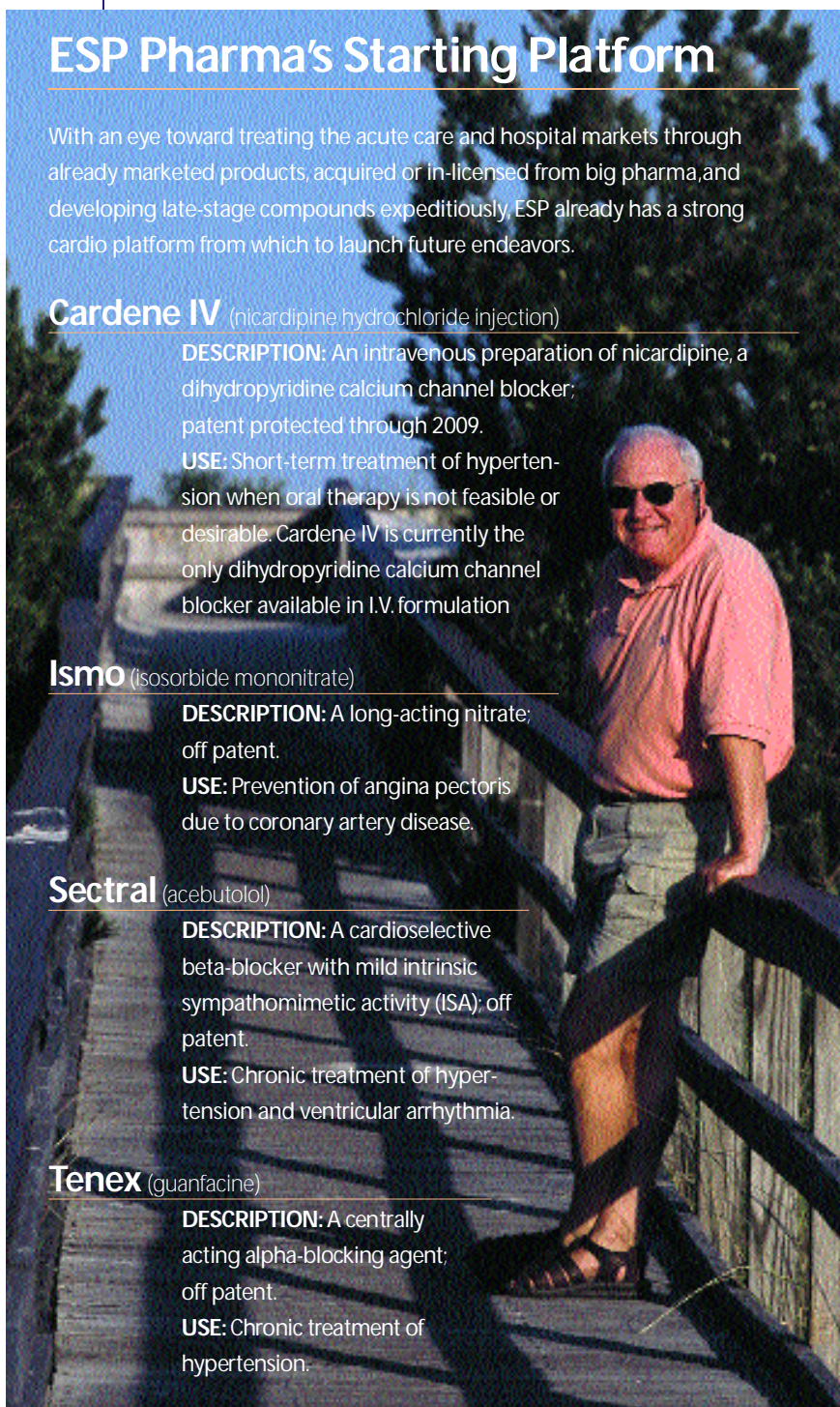
**DESCRIPTION:** A cardioselective beta-blocker with mild intrinsic sympathomimetic activity (ISA); off patent.

**USE:** Chronic treatment of hypertension and ventricular arrhythmia.

### Tenex (guanfacine)

**DESCRIPTION:** A centrally acting alpha-blocking agent; off patent.

**USE:** Chronic treatment of hypertension.



essary revenue generating capacity to sustain lagging pipelines and huge salesforce and marketing infrastructures of mega-pharmaceutical companies.

“These are approved products, but because big pharma has bigger fish to fry and they need to put their resources elsewhere, these products have not been aggressively promoted,” he says. “We try to identify those products and then build them with aggressive marketing campaigns, with a good, strong selling effort, and with continuing medical education programs.”

As the company continues to search for

late-stage clinical products, which are in development and consistent with its direction and that can be acquired and brought to market after a fairly expedited development program, ESP Pharma is concentrating on four approved products already in its arsenal.

All four products were acquired from Wyeth, though it is one product, Cardene IV, that ESP is most excited about.

Cardene IV is a calcium channel blocker that is indicated for the short-term treatment of hypertension when oral therapy is not feasible or not desirable. Cardene IV is used in the

operating room by cardiac anesthesiologists to maintain low blood pressure during surgical procedures. It is also used in the emergency room in patients who come in with malignant hypertension or with severe head trauma to help prevent hemorrhage.

“When we looked at this product we interviewed a number of physicians — cardiologists, cardiac anesthesiologists, neurosurgeons, neurologists, intensive-care experts, and emergency room doctors — and asked them about their experience with Cardene IV,” Mr. Spitznagel says. “The doctors who were using it

## The Man Behind the Executive

IN AN EXCLUSIVE INTERVIEW WITH PHARMAVOICE, JOHN T. SPITZNAGEL, CHAIRMAN AND CEO OF ESP PHARMA, DISCUSSES WHAT INSPIRES HIM AND HOW HE INSPIRES OTHERS.

### Q WHO HAS INSPIRED YOU DURING YOUR CAREER?

Over the years I have worked for a number of people. At Warner-Chilcott I had nine bosses in two and a half years. There was a lot of change and reorganization and I received promotions moving me from one group to another. Each assignment gave me the chance to work closely with somebody new, someone who had a totally different view from the person I'd just been working for. This was a real learning experience, providing opportunities to work with several outstanding and inspirational leaders. Probably the greatest influence on my life was my late wife, who was a terrific support, and told me things about myself that I never realized and encouraged me throughout my career while also accepting my brutal travel schedules.

### Q WHAT MANAGEMENT THEORIES HAVE INSPIRED YOU?

The book that probably had the biggest impact on my management style is “The Human Side of Enterprise,” by Douglas McGregor, which I read about 30 years ago. He put forward the premise of Theory X managers and Theory Y managers. Theory X managers are managers that control all information and direct everything. Theory Y managers are participatory managers, executives who let things go on. It was an interesting framework and a revolutionary concept to me at the time. Over time, I have been able to utilize the theories in the book. Later, when I was at Wyeth I sent a copy of Tom Peters’ book “The Pursuit of Excellence” to all my district managers, regional sales managers, and all my marketing people.

I like to read biographies on leaders, such as Churchill and Lincoln. A lot can be learned by studying what they did and how they did it. There’s a book called “Matsushita Leadership,” by John Kotter. The book chronicles the life of Matsushita, a Japanese man who worked in a bicycle shop, starting as an

apprentice at 9. He tried college, but he wasn’t the best of students. All the time that Matsushita worked in the bicycle shop he worked on perfecting a better bicycle light. Matsushita eventually built his own company on the premise of this better light. The company became Matsushita Electric Corp., the parent company of Panasonic. It’s a fascinating book on leadership.

### Q WHAT IS YOUR MANAGEMENT STYLE?

My management style is to delegate, but stay involved. I believe strongly in getting the right people into the right jobs. If they’re young people I believe in moving them around to give them a variety of experiences. Part of this philosophy is to make everybody feel as though they are an important part of the team, and encourage everyone to contribute to formulating the goals, building the plan, and implementing the processes. It’s important to remove penalties for failure so that people don’t live in fear of losing their job because they did something “wrong.” When a manager can do this, he or she can cultivate a very loyal group of people who are all going in the same direction toward the same goal.



were very enthusiastic. But more often than not, doctors only had a vague awareness of the product or had no idea how to use it. These data suggest that Cardene IV is an unpromoted drug, which with a good marketing plan and a good salesforce could probably be leveraged into a much bigger product.”

The other three products acquired were Sectral, a beta blocker, indicated for the treatment of high blood pressure and abnormal heart rhythms; Tenex, an alpha blocker, indicated for treating hypertension; and Ismo, which is indicated for the treatment of angina attack.

“Those three are very good products,” Mr.

Spitznagel says. “The commercial dilemma is they’re off patent — they’re branded generics. Our strategy is to use these products to bulk up our top and bottom line for a few years while we develop Cardene IV and acquire some other products that are patent protected. But Cardene IV is the crown jewel. It has a nice long patent life — until late 2009.”

At the same time, ESP Pharma is branching out with strategic alliances and in July 2002 announced an alliance with France-based OTL Pharma. Under the terms of the agreement, OTL Pharma becomes the preferred marketing partner for ESP Pharma’s ethical drug products

in the 15-member European Union. The alliance also makes ESP Pharma the preferred marketing partner for OTL Pharma in the U.S.

“OTL Pharma is a very similar company to ESP — specialty focused,” Mr. Spitznagel says. “Our goal is to secure the marketing rights not only for the U.S. but also Europe, but we don’t have the infrastructure to market in Europe so we will share that opportunity with OTL and they will do the same with us.” ♦

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## ESP Pharma — A Watershed Investment Opportunity

**T**oward the end of May 2002, ESP Pharma successfully completed an initial \$28 million private placement of equity securities with a syndicate of leading healthcare venture capital and private equity firms, including Domain Associates LLC, Apax Partners Inc., and New Enterprise Associates. In addition to the financial support, those companies play a part in helping ESP with business initiatives and offering advice through participation on the company’s board. The board of directors of ESP comprises John T. Spitznagel and Howard Weisman, as well as Bob More and Brian Dovey of Domain Associates, Adele Oliva of Apax Partners, and Ryan Drant of NEA.

According to Ms. Oliva, a partner in Apax, the syndicate of investors that funded ESP Pharma understands the specialty pharma area and has a substantial amount of capital available for follow-on investments.

“Our expectation is that John and his team will identify interesting

opportunities to grow ESP and that we are available to help fund such investments and acquisitions,” she says.

Apax’s decision to invest in ESP Pharma was research-based. To start with, Ms. Oliva and the Apax Health Care Investment team carried out significant due diligence, making inquiries throughout the industry, and calling on physicians, financial analysts, and individuals knowledgeable about specialty pharma.

“We’ve made several investments in the specialty pharma sector in the past,” she says. “One of the things we’ve learned is that a company really needs to be firing on all cylinders because there aren’t a lot of barriers to entry. We believe there needs to be a great management team, a market that’s attractive and realistic for a specialty pharma company, and an initial set of products that have solid market potential.

“From our research, we determined that ESP Pharma is such a company,” Ms. Oliva says. “John has sterling credentials, and he has attracted an outstanding team, all of whom have proven themselves in the past. They have focused on the hospital market, which can be reached with a reasonable number of sales reps. And finally, we felt that the acquisition of Cardene IV, one of the four products ESP Pharma purchased, was a great product and would give ESP the chance to ‘move the needle’ so to speak.”

As a member of the board of directors, Ms. Oliva — along with her colleagues — provides an objective outside perspective and serves as a conduit to important contacts for the company.

“We believe that our added value as an investor comes from the ability to provide introductions that can help the company, either strategically or in an operating role,” she says.

“Also, when it comes time to potentially go public, we have significant relationships with investment banks and can open the doors to the capital markets for the company.”

Ms. Oliva notes that the relationship with ESP is a two-way street: “Not only did we choose ESP, but ESP chose our investor syndicate. ESP had a lot of different groups interested in investing in the company, and we are fortunate that they decided to partner with us.”

