

Interview with John Oyler, Founder and CEO, Bioduro

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You've run a number of life sciences companies now, but before that you started Telephia, an information services provider to the wireless industry. How did you make the jump to the healthcare industry?

I worked in life sciences prior to Telephia, including Genta and another firm that later merged into Interneuron Pharmaceuticals, which is became Indevus and has now been acquired by Endo – so I was somewhat familiar with the industry. I became involved in Telephia because I was an entrepreneur in San Francisco at the time when the wireless industry was starting to emerge. I am a very people driven person, and an acquaintance that I wanted to work with approached me with the concept. It was early days in the industry, and I didn't even own a cell phone. Thus for me, that was an opportunity to get involved in an industry just as it was entering a boom period. Telephia is an information business, much like IMS. The core of the business is about collecting the right information and knowing how to interpret it to make better business decisions. I was working with a team that I loved, that was extremely talented, and that worked extremely hard to make tremendous things happen despite the failure of many telecom companies after September 11, 2001. Many of the people that we hired are still at Telephia, were quite financially successful, and are its leadership today, even though it was subsequently purchased by Nielsen. These things make me feel pretty good, but while all this was happening, I was also watching my previous company, Genta. Genta was a firm that I had done a turnaround of earlier with another partner, and its lead compound was up for Phase III approval several times while I was running Telephia. Each time, I followed the progress closely. When I first become involved, the company had a

stopped phase I due to lack of funds. We restarted that trial and either because of good luck or insight on the part of our investor, the science and company turned out to very, very exciting. When we restarted the trial, we saw a complete remission of non-Hodgkin's lymphoma and everyone was excited and wanted to work with us – we got the best academicians and the best clinicians. It was an exciting area of science (antisense – the precursor to siRNA) and it was an exciting time. Although running Telephia, I was more excited about learning what was happening at Genta than the bottom line of my information services business. I guess that fundamentally, I love science, and I love the fact that being involved in drug discovery could really have a huge impact on people. This experience drove me to decide that everything I was going to do moving forward was going to be in life sciences. I realized that it is important to me not only to build a great team and a long term, successful organization, but building a team that does something that I really, deeply care about.

You started this company as a company that has been global from the outset. How was the process of getting it off the ground different from the other companies that you've started which had a domestic, US focus?

Given that I've lived abroad extensively, one might think that I wouldn't be afraid of running a global company. But that was not the case. However, my partner Masood Tayebi, had previously run a company that operated in 27 countries with several thousand people. I would say that I have the necessary experience to running this type of business, but Bioduro is international and has the potential to be a thousand person organization and I've never run such a type of business. I had a lot of comfort in being able to leverage the strengths and experiences of my partner Masood – he is a very talented man.

We say that BioDuro is a multinational company, and we do have a several people in the US, but we are primarily based in Beijing. We had initially planned on having more global sites at this point, but in reality it takes a lot of energy to do that and I don't think that we've been in a circumstance where our team has had that much personal energy at this stage. It may happen, but it hasn't happened yet.

We are very multinational though in the sense that our company culture is a unique hybrid. It's a mixture of the way that things have been done in the pharmaceutical business and the way things are done entrepreneurially in biotech companies. It's also a mixture of the way things are done in China, the US and Europe as well. We are creating a very unique culture and environment, different from anything that has ever existed.

BioDuro is a start-up company run by a multinational team. Yet it is not at all like a multinational company. This is because when we hire a functionally are a (for example our HR group), they aren't simply implementing a system that has been rolled out across the world, they are actually building their own system from scratch. It's unique and wonderful, but harder. It is the same in finance, EH&S, and across the board for all departments. It's a multinational in one way but in many others it's a complete startup. This has strengths and weaknesses and does let you create a hybrid culture. I think we have been able to nurture the entrepreneurialism and a passionate research environment. I also think we have been able to better incorporate aspects of the Chinese culture and business environment.

The culture is certainly unique. Last week we had a visit from a French scientist. He was asking where people on the team are from and they were telling him the names of some cities that he didn't recognize. I drew a rough map of China on the white board (one that would embarrass my father, a former cartographer), and pointed out Beijing and Shanghai. The first team member said he was from Chendu and I drew a star on the map where that was, and the next team member said Xian and I drew a dot for that city. This young scientist had worked at our company for less than one year, and he jumped up, ran to the board saying "no, no, you're completely wrong," grabbed (yes - grabbed) the pen out of my hand and drew it a little further South on the map. Later that night I was sharing a drink with this gentleman and he mentioned that many Westerners are worried Chinese will be too hierarchical and never question authority. He then said that even at his company, first year team members probably wouldn't tell the CEO that he's wrong and grab the pen out of his hand. That's part of the system where we train people to fit into our culture. We work hard and keep serious things serious, but also leave space for the lighter side as best we can. We are trying to put the best of both worlds together, but that said, what works in Silicon Valley is not necessarily what works in China. There are a lot of things that we've done or tried that didn't work. We've made plenty of mistakes. I have in particular. But, we've all paid for them, worked hard to overcome them, and, most importantly, we have tried to learn from them. It is a unique culture. Last week I had a group of midlevel management over for lunch, and they asked how I would respond if I were a manager and a peer manager's scientist did something wrong. I gave them the wisdom of my years of experience and wisdom happy this was something I knew how to deal with. They all just laughed at my answer and said it would never work in China. So the challenge is building this unique culture together. There are things that your organization needs to build itself. I often think that we are a melting pot of culture from academia, biotech, Pharma, Sichuan, Beijing, Shandong, Shanghai, the UK, Jiangsu, Hubei, Anhui, and perhaps even a touch of Pittsburgh.

What do you see as the evolution of R&D in the pharmaceutical industry? One major trend has been ballooning costs driving research outsourcing. Aside from incremental increases in the volume of outsourcing, how do you see the industry changing? Will there be a significant paradigm shift in the way R&D is conducted or the relationships between big pharma and service providers?

I believe that there is going to be lots of change and activity over the next 3-5 years as everyone tries to figure things out. Change is in the air. So is opportunity. I believe that there will be three major industry trends: 1) externalizing cost; 2) shift to integrated services; and 3) re-emergence of the importance of building and maintaining great teams. The first trend is driven by economics and Wall Street and right or wrong, is happening. It will provide for new organization creation globally and also domestically. The second is driven by the reality that it is very cumbersome and less effective to manage functional service providers who do not understand the nature of their projects. This also is extremely demotivating to the bench scientists and will not be sustainable.

From the beginning, we built BioDuro not to do functionally work (e.g., procedure-following synthetic chemistry), but to work collaboratively to provide an integrated suite of services and solutions led by people that understand drug discovery and are able to provide a level of value that did not exist in synthetic chemistry or a protein purification companies. There were two reasons for this choice. My partner is in the IT space and in that industry, companies want service providers that offer complete solutions and innovation. They don't want a piece-by-piece approach. His vision was very much in that line. In my experience, having run a biotech company in Cambridge, Massachusetts, I wanted to do more programs with a limited budget. At the same time, when you get into a dialogue with an individual academic the experience is too focused. In the same way, when you talk to a niche company that only knows how to run a CNS model, they don't always understand what the biotech and pharma companies are trying to achieve.

Another thing that became apparent is that the fear of sharing IP with companies in China has receded. If you're a Swiss company doing work with a biotech in Cambridge, Massachusetts, you may be working with an American company but likely one third of the scientists are from China. Cambridge also has a lot of companies close together and there is IP risk associated with that too.

There was certainly an initial IP related fear in China. All we ever heard during the first year was, "oh no, we'll never do anything IP sensitive, we'll only do building blocks and early stage work in China." But now, only one of the last fifty companies that has been here has wanted to talk extensively about IP. Previously it was a three-hour conversation every time anyone came to visit. There is now much more comfort given the amount of work that now goes on in China and people's positive experiences now lead them to understand the risks in China are similar to those in

Cambridge.

The final issue is integrated research. At first, companies outsourced research to simply cut back costs and picked service providers solely on a cost basis, conducting research components separately, for example they would make a molecule with one company, run an assay with another, and run an animal model with yet another firm. But in this model, you lose a lot of time in closing the feedback loop. Companies were experiencing many delays, and while they might have been saving a lot of money, they weren't going in the optimal direction because the feedback wasn't quick enough. It was clear that by putting all the services together, along with people who know how to design and manage the screening cascade, you are able to save money and remain efficient. This does require people who understand science and drug discovery, and with whom you can have a dialogue and engage meaningfully on the scientific issues. If this occurs, the service provider can add additional value. Whether at a pharmaceutical company or a biotech, most people have too much on their plate these days. Most people are open to getting help from someone else who is a very competent researcher, and is a sound thinker with a relevant set of experiences. Of course if you don't have the right people then other organizations won't desire or need integrated services. However, when you do have A-caliber talent, most organizations are very interested and excited to work with them and incorporate their feedback into the research process.

A number of Chinese CROs such as Hutchison Medipharma and Venturepharm are employing a hybrid model by providing integrated drug development services while also developing their own in-house portfolios. They seem to be growing their client base, so clearly conflict of interest has not been a huge issue for them. What advantage do you see in steering clear of in-house development?

I have a passion, a skill set and a set of experiences that allow me to build a life sciences research company. I only have so many years of my life left and it's really, really hard to build a company. It's brutally hard work. I take my hat off to any one of those people and the organizations that you mention. If you don't fail in the first five days, you're pretty good, and if you don't fail in the first five years you're spectacular. Pharmaceutical companies are working with hybrid companies such as you mentioned in India. I do not think they perceive a huge conflict of interest. I am not sure though. We have not chosen that path. I believe in the importance of building a world-class lasting team. I only encourage those organizations not to succumb to the frequent outcome of successful organizations in the US – which is to be bought and disassembled, or to fire the research team to hire the development team.

BioDuro is here because I fundamentally believe that Beijing is the best place in the world to start a life sciences company – in this precise location by Beida (Peking University), Tsinghua, Xiehe (Peking Union Medical College), and the National Institute for Biological Sciences. This is the tightest geographical place to recruit incredible talent and build an organization to do research in the long run. If I just wanted to make money, I'd be doing other things. The whole reason I'm doing this is because I love science and care about being part of discovering drugs that could help improve the quality of life worldwide. That's different from selling drugs. I don't care about selling or manufacturing drugs, I'm happy to let someone else do those parts. But when it comes to discovering and helping design new drugs, anyone who has worked on a drug feels ownership. We could be like Venturepharm or Hutchison and try to make our own drugs alone and assume that our team sitting here in China understands the global market. But our team is unconnected from some of the best clinicians in the world, and only somewhat connected to the best academicians, so its easy to get somewhat caught up in what you're trying to do, while not really understanding things like the payer-payee situation and not understanding what is actually in other companies' pipelines across the world. It is very difficult to decide what to focus on and what the appropriate target product profile thresholds are for success. Biotech in the US currently has roughly 5000 assets in the clinic, but pharmaceutical companies are only interested in 50 of these. That means there were 4950 decisions that led to developing things that nobody wants.

Now put the economics aside for a moment. If you work with a pharmaceutical company, the probability that you develop something that is actually compelling is much higher. They have more insight, better experience, and they know what clinicians want. I've been that biotech guy, and we had an oncology drug with a complete remission in phase I, and we were still sitting in a room full of our own people, wishing we could just get in a room with GSK or Merck or Pfizer and talk about what's important to them, but their scientists wouldn't meet with us for fear of contaminating their own IP. You can't even get in the room because you're an outsider. However, when you're collaborating, you can work with the best people in the relevant therapeutic area, their best medicinal chemists and the best people in that organization. Its impossible to say precisely how much the probably of success increases with collaboration, but if we can only do a limited number of things, why not get help with every single project.

To access all this help, we give up our ability to become a \$US10 billion dollar company. We talk about this when people join the company. We tell them, "do you want to be part of a company worth US\$ 10 billion, or do you want to work in a place where you are guaranteed your job because the company isn't taking major risks and you can work with the most brilliant people in the pharmaceutical industry, working on interesting and compelling targets while getting a broad

exposure to research that has a high probability to become a drug?" The people in our organization are more science driven, more impact driven, more team driven, and less financially driven. In my opinion, most of the best scientific talent in the industry wants to be part of an incredible team, doing world-class research and making drugs. Regardless of whether the team includes a pharmaceutical company or not, the team is just a group of people. If you make a discover a drug you are all successful, if you fail, you are all unsuccessful. Reputation-wise you are a winner, and this stays with you for the rest of your career. So what if we give up some of the upside. We aren't manufacturers or sales people. We are scientists.

Could you provide us with highlights of some of the most important collaborations thus far?

Typically, we have not disclosed our collaborations. Today we are doing integrated programs with 6 pharmaceutical companies. We have disclosed that we are working with Roche and AstraZeneca. They are certainly critical to us. In both instances we are doing what we love, which is working in a collaborative way to discover drugs. I cannot speak highly enough of Roche. They are smart and expect and demand excellence. They make us better. They are an incredible group of people working on interesting projects and very easy and straight forward to work with. They treat our team with tremendous respect and are widely loved at our company. From the AstraZeneca perspective, they did some trials and then chose to work with us. That has been an extremely well run collaboration on their part and we appreciate that. They are very clear in thought and excellent at collaborative program management. In terms of scientific success, those programs are at relatively early stages. I would say there have yet to be any meaningful or tangible outcomes. We have also been involved in collaborations with other organizations where we have gone hit to lead, lead to candidate, and hit to candidate. Our track record to date has been very strong though I can't talk about specifics because those results are confidential and not disclosed. It is still early days for most people in China and there hasn't been enough time to really build a track record. However, even if you haven't yet reached a milestone, people know how you're doing pretty quickly.

How do you see the expansion of the company this year in terms of headcount, commercial activity and partnerships?

We are growing reasonably aggressively in biology, because in some of the biology areas you really have to build new set of functional capabilities and team to match. So there are some areas where, by definition you need at least 20 people just to get started. On the Chemistry side of the business, we see measured growth. We don't want extreme growth because that is difficult to manage, so we will continue modestly. I don't think you will see us look like some of the biggest organizations. We

don't want four or five thousand people, and we don't think it's the right way to grow.

We have always wanted to do integrated programs where we are the program lead or the co-lead, managing the science in the program. I think that this area is growing dramatically. Many pharmaceutical companies are embracing this model, and as they come and meet the teams of people and see their experiences, they realize that BioDuro's team and research culture are very unique—driven by having this approach from the beginning. Going into August, we expect a third of our scientists to be involved in programs where we are contributing on a meaningful level. We expect this number to increase to 50% by the first quarter of 2010. We do see functional and therapeutic expertise in biology growing, and also a deepening depth in integrated chemistry and running an integrated model.

This business model is not the same as a synthetic chemistry CRO, where perhaps one chemist from the US manages 300 people. We hire one, very-hard-to-find, well-trained drug discovery medicinal chemist who has run several programs previously and this person will manage two programs with only 30 people. We also often bring over another medicinal chemist with 6-8 years of experience who can help that senior leader. We also complement this with part of a similarly experienced discovery biologist leader.

There are many multinational companies setting up operations in China, not to mention a boom in the local biotech scene and the CRO sector. This creates a lot of competition for talent. How do you manage to attract and retain top talent?

If you want to hire the best scientists, you need to be a research driven company. For example, one of our employees comes from GSK and was out of Chris Walsh's lab at Harvard, which is one of the better labs in the world. He is a very fine discovery biologist. He came to BioDuro and got involved in this company because when he walked in the door, it felt like a Western research culture.

He liked the people, the team, the research environment. People were talking about science. The lab is as nice as anything he's had before and the bench-level scientific focus is fantastic. We've hired more PhDs than most other companies and we have brought back a number of people with whom he can have meaningful conversations. If he were to go to a small company with 100 people, there isn't the critical mass for the top level of science. If he goes to a big company that was designed to do chemistry, there are a lot of synthetic and organic chemists and a process group and a manufacturing group, but the discussion of research and of how we make a drug may not be there. Creating a research environment that people feel will be successful and of high quality, is a critical success factor.

Being in Beijing is a plus because most of the multinational firms don't have R&D operations here. GSK isn't here; Novartis isn't here; Roche and AstraZeneca aren't here. None of them are hiring in Beijing, but Beida (Peking University), Tsinghua, and Xiehe (Peking Union Medical College) are here. Our ability to recruit and tap into these resources equals anywhere in the world. There are still people who are hard to recruit. For example, we are currently looking for an inflammation pharmacologist and a CNS pharmacologist and haven't found them yet. And we've also been looking for world-class pharmacokineticist, and haven't hired one. But we are taking our time and those positions are difficult to fill, even in the US.

People also come to organizations based on reputation and the other scientists that work there. There is a relatively tight knit Chinese scientific community and people can usually call someone who knows someone who works at BioDuro and find out what the culture is like and whether they will be comfortable working in this environment. I don't foresee us having an issue building the type of research organization that we want to create. 20-30% of the researchers in the US are from China and there are a lot of reasons for them to want to come back – especially the food! A lot of people are pleasantly surprised about the quality of life in Beijing. It's a great city and there's a lot to do.

What is your vision for the next five years?

Our goals for the next five years are to have contributed to the discovery of several compounds that pharmaceutical companies have put into the clinic. As long as our science is excellent, our passion is great enough, and our portfolio is big enough, there is a good chance that one of those compounds will become a drug. It is also important for us to have a reputation for doing very high quality and challenging science. We have established that now, but want to expand it. There is some work that we're doing that's as hard as it gets on the biology side of the business. Because it is so hard, the risk return isn't there in Europe or the US, but they are pharmaceutical companies are to try it in China because we share the risk and lower dramatically the cost. Continuing to build that reputation is very important to our team. Finally it's important to be known as a great place to work. In terms of size, we aren't on a crazy growth march and we're almost as big as we need to be. We are much more focused on doing great science, having impact, and enjoying working together as a team.

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