

# Interview: Jonathan Ross Goodman - Founder and CEO, Knight Therapeutics, Canada

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*Jonathan Ross Goodman, founder and CEO of Knight Therapeutics Inc., discusses the unique backstory behind the founding of the company, coming on the heels of the sale of Paladin Labs Inc., his previous company, for CAD 3.2 billion, the cycling accident that left him brain-damaged but more committed than ever to the industry, and his vision for the future.*

**Before we delve into Knight Therapeutics, with your father having founded Pharmascience and your brother now running it as CEO, do you consider yourself a pharma child?**

Absolutely. When I was growing up, my father did not read Sports Illustrated or the usual men's magazines. His reading diet consisted of Pharmaceutical Executive, the New England Journal of Medicine, Lancet, and so on. He read these all the time, so that was what I picked up and read too!

Prior to founding Knight Therapeutics, I had founded another company, Paladin Labs, when I was 28 - mostly because my brother was older than me, had a Ph.D. in pharmacology and was already working with my father. Now, I had learnt as a kid that whenever you have three friends together, there is always two against one. Three is a recipe for disaster.

This is what I told my father. I told him: you sell generics, I will sell branded pharmaceuticals. Pharmascience is a private company, I will build a public one. You have in-house R&D and manufacturing operations, I will not have any! I went the opposite track within the same industry.

Paladin Labs started at CAD 1.50 a share in 1996. 19 years later, it was worth CAD 142. I had grown the company from the initial CAD 6 million invested to CAD 3.2 billion. More importantly, we sustained 19 consecutive years of record revenues by selling innovative pharmaceuticals that touch people's lives.

**With that enormously successful track record heading Paladin, why did you subsequently decide to sell it - and start Knight Therapeutics based on what is essentially the same business model?**

Paladin was my baby. I did not want to sell it, but it was a public company; my family only owned 34 percent of it. My fiduciary duty is to all the shareholders, regardless of my personal interests. The offer made to us was so juicy that it would have been irresponsible of me not to sell it.

People often ask me, why did I not retire? I did not even take the day off! I started Knight Therapeutics on the same day - in the same meeting, in fact, because in the negotiations with the buyer, I also secured CAD 1 million for Knight Therapeutics and a product called Impavido® that I was hoping would receive FDA approval, which we later launched in the US through a partner.

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I only know how to do one thing in life: sell drugs, make people better and make money in the process. This is what provides meaning to me and a reason to wake up energized despite always being tired from my brain injury.

Ever since the sale of Paladin, many so-called 'Paladin wannabes' have cropped up. Knight is one of them too. But the Canadian market cannot necessarily accommodate all of them so I do foresee a period of consolidation. This is why Knight has so much cash on hand as well - over CAD 700 million.

**What makes Canada the perfect country to launch such a business model?**

Canada is not one pharma market but ten. Each province determines what they want to pay for, so reimbursement has to be fought province by province, and then you have various federal regulatory and pricing bodies like Health Canada, Patented Medicines Pricing Review Board (PMPRB), and so on. The many layers of regulation make market access a very complex issue in Canada.

If Canada was efficient, Paladin would not exist - neither would Knight. We would just be seen as the 51<sup>st</sup> American state.

My skill is precisely to navigate this complex environment. Over the last 21 years, I have gotten more drugs approved and reimbursed in Canada than Merck, Pfizer and GSK combined. Of course, these are no Lipitor, but they have to go through the same process.

I see opportunities in the regulatory reforms Canada is proposing and has begun to introduce here. There is no question that selling 'me, too' products is increasingly becoming more difficult. A new product has to deliver health benefit in a notably different and valuable way. Knight is focusing on products that do just that. Increasingly, big pharma is still focused on larger product opportunities. For instance, our most recent product launch, Movantik®, is licensed from AstraZeneca for opioid-induced constipation. It is an important medical need but for a smaller patient population.

We hope to turn Big Pharma's trash into our treasure!

### **How does Knight identify potential products of interest?**

First and foremost is to read a ton – and not be afraid of people telling me no. I have people telling me to go fly a kite at least a few times a day before lunch.

At Paladin, we were focused on the specialty areas of urology, neurology and endocrinology. At Knight, I like to say we are involved in 'opportunology'! I am looking for any product where a small number of physicians drive a large number of sales. I cannot out-Pfizer Pfizer, so rather than a GP product, I need to look for large products driven by a small number of decision-makers.

One of my favorite sayings is, 'better lucky than smart'. For instance, when I first started Paladin, I bet a third of my initial CAD 6 million capital in licensing a product for scleroderma, which was in phase III trials. All the experts I spoke to said it would work. It did not, and I went from hero to zero. The company came to ask for it back but I refused. 12 years later, they found out the same molecule could be used for the treatment of acute heart failure, another company buys them and licenses it to Novartis for billions. It works in Phase III but then the US FDA wanted another phase III – and it failed there. I went back to hero and then zero, once again. Novartis wanted to buy it back but I refused, because the Canadian market for a product like that for acute heart failure would be huge! That is the end of the story, however, since Paladin maintained the Canadian rights.

Similarly, around 15 years ago, I was approached by a passionate advocate of female health issues regarding the morning-after pill, which no company in Canada then would touch due to its controversial nature within such a small market. I told them, I will make this product available because it is the right thing to do, as long as you do not make any demands on its promotion. Within seven years from launch, we were making CAD 10 million in revenues and a profit of CAD 6

million! In this case, we were paid handsomely for doing the right thing by making this product available to Canadian women.

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**The other part of Knight's business model includes investments in life sciences funds. What value does this create?**

There are a lot of big brains in Canada, US, Europe and beyond developing some great research, and we are fortunate that we have access to this innovation – through our investment in nine different life sciences funds. We have invested CAD 135 million dollars in exchange for generating a return – like all LP investors – but also securing Canadian and Israeli rights to products coming out of their portfolio companies.

For instance, we have invested USD 25 million in a fund called Domain, which was a very early investor in Amgen; we are their biggest LP investor. As a matter of contract, every company Domain starts and controls, Knight secures the Canadian market at approximately 70 percent gross margins. If I had done this relationship 25 years ago with Domain, Knight would be recording over CAD 1 billion in sales and over 300 million EDITDA – just from one company in DOMAIN's portfolio. Domain is on their ninth fund and they have never lost money. Their worst fund had an internal rate of return of about 2 percent while their best did about 18 percent, so in essence, Knight is going to be paid between 2 and 18 percent IRR while we wait for our pipeline to mature. No one has ever embarked on this innovative pharmaceutical sourcing strategy. I will tell you in 20 years if it worked.

Based on this strategy, we then invested in geographically diverse funds like Forbion from Europe and Sanderling in California, US. We have invested locally in Canada as well: Genesys, a fund based in Toronto, and Teralys and HarbourVest, both focused on primarily Canadian investments. Canada is home, after all, so we are committed to investing here too.

The fact is that no one will ever license me a Lipitor so I will need to get my blockbusters through another route. A lot of drug discovery is serendipity – and keeping your eyes open. As I say, in life, it is better to be lucky than smart.

**With Canada being the home market, Knight has also expanded to Israel. What is your internationalization strategy?**

Despite being a top ten market, Canada is still a niche at less than 2 percent of the global pharmaceutical market. No one cares about Canada. I love markets that no one cares about. This is

why Paladin went to South Africa. I had done some market research with some licensors and while negotiating a deal for Canada, I asked them if they could throw in South Africa for no additional consideration. I said I was doing them a favor because it is a 16-hour flight between New York and Johannesburg, even longer from Montreal. For a small market, the cost-benefit analysis was clear. Furthermore, if anything were to go wrong, they could sue me under Canadian law rather than a local company under South African law.

At Knight, the first small market of choice was Israel. In 2015, we acquired 28.3 percent of Medison Biotech, the third-largest pharma company in Israel ranked by sales. They are larger than Pfizer and even Teva in Israel, and they represent great companies like Biogen, Shire, Ipsen and Amgen. From a pharmaceutical perspective, Israel is not even the size of Québec.

We are actively looking to grow geographically. As we are still a small business development team, we are focused on currently exploring opportunities in Central and South America.

### **How do you identify the right partner?**

I am looking for partners that I respect and trust. In 20-odd years of business, I have never been sued or sued anyone. I always do what is right, pragmatic and fair. Contracts are signed and then filed away never to be seen again.

### **As a successful entrepreneur, do you have any advice for aspiring entrepreneurs?**

My mother always told me: don't ask, don't get. I am not afraid of people telling me no. I tell my kids the same: what is the worst that could happen to you, if they say no? So what?

I would also like to share my personal story. In 2011, having just purchased Labopharm, I took my management team for a celebratory bike ride and fell on my head. I ended up in a coma for five weeks dealing with complications like septic shock, pulmonary embolism and two heart attacks. The doctors told my amazing wife that I had a 90 percent chance of dying or waking up as a vegetable. While I like broccoli, I did not want to be one!

After I survived, treatment was a year of intense cognitive and physical therapy. Recovery is not the right term because I will never return to what I used to be. I am always tired and my short-term memory is feeble. High school memories are vivid but what I did yesterday is more challenging. Thankfully, I have workarounds in order to continue to perform.

I hope my story will inspire anyone facing adversity not to shy away from it but to face it head-on and do the best they can with what they have. I created Knight while brain-damaged and today we

have a market capitalization of CAD 1.2 billion!

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This is what provides me personally with meaning. I have spent 15 percent of my time over the last 20-odd years doing community work. Despite my personal trauma, Paladin was always the largest Quebec team participating in the Ride to Conquer Cancer, helping to raise millions from across Canada. Despite falling on my head from a bike accident, I encourage people to ride to help rid our world of cancer.

### **A final message for our international audience?**

In 2016, we were not actively selling anything to Canadians. In 2017, we now have 12 sales representatives selling Movantik® and are finally a real pharma company!

We are looking for interesting and innovative pharmaceuticals to commercialize in Canada, Israel and potentially other markets. We have over CAD 700 million in cash and we are ready to structure any type of arrangement that makes sense for both parties. The only types of partnerships that work are those that everyone leaves feeling GUD (Knight's ticket symbol on the Toronto Stock Exchange).

We do not want to take ourselves so seriously. We are not put of this earth just to take up space – we are here to make a difference. We do that by selling innovative drugs that touch people's lives, while making money in the process – in that order.

For investors, I always tell them, if their investment horizon is not their grandchildren, we are not the right company for them. Paladin had 19 consecutive years of record revenues but for 12 of those years, our stock was flat. It took us 19 years to become an overnight success. It will also take us a long time to be successful at Knight.

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