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JANUARY 2016

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EXCLUSIVE LIFE SCIENCE FEATURE



## FROM WINDOWLESS DATA ROOM AT MERCK

TO

## CEO OFFICE AT INTARCIA

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By C. Yarbrough FROM WINDOWLESS DATA ROOM AT MERCK TO CEO OFFICE AT INTARCIA

**K**urt Graves, the 47-year-old chairman, president, and CEO of Boston-based Intarcia Therapeutics, got his first major break in the life sciences industry 25 years ago as a sales representative for Merck in his home state of Michigan. In his 18th

month on the job, a Merck official asked Graves to arrive in two days at the company's U.S. headquarters in West Point, PA, for a high-priority assignment that could require four months of his time.

Through the company's internal grapevine, Roy Vagelos, M.D., then-chairman

and CEO, and other members of Merck's senior team had heard about Graves. In addition to being successful in sales, he was known for setting a company record by completing 16 weeks of sales training in just six weeks. Graves, who had considered attending medical school,

attributed his speed in learning about Merck's drugs to his college courses in biology, chemistry, and physics.

At headquarters, Graves worked in the windowless room that housed Merck's scientific data on Prilosec, the company's new treatment for ulcers and gastroesophageal reflux disease (GERD). The FDA had mandated a black-boxed warning on the drug's proposed label, based on preclinical findings of abnormal gastric cells in rats chronically treated with high doses of the drug over their lifetimes. Zantac and other competing, older heartburn drugs did not contain the warning. Vagelos asked Graves to search the files for information that would show whether the black box was warranted for Prilosec's use by humans. If the available data did not support the box's removal, Graves was to suggest how Merck could best educate physicians and consumers about what it meant.

Graves uncovered information that subsequently proved crucial to the removal of the black box in 1995. The FDA's decision, which also was based on human data from the widespread use of the drug, "opened up seven first-line indications which made Prilosec the top-selling prescription drug in the world for many years," Graves recalled.

After completing his assignment, he returned to Michigan to pack his bags to move to Pennsylvania. Vagelos had rewarded Graves with a promotion and a job on Prilosec's marketing team at headquarters. "However, as soon as I moved to West Point permanently, I was sent back into the data room on a new assignment!" he said, laughing. Graves was charged with identifying new ways the pain-relief and healing benefits of Prilosec would clearly illustrate the drug's superiority over competing products. He succeeded and was recognized with the Merck Chairman's Award. Soon he was promoted to lead the business unit for Prilosec.

## SUCCESS AT NOVARTIS

In 1993, Graves received another special assignment: work with a handful of Merck executives to build Astra Merck, a joint venture between Merck and Astra AB of Sweden. "Helping build this new company on the back of Prilosec was fun and amazing. I knew then that at some

point in the future I would want to do it again," said Graves, who headed Astra Merck's GI business unit until he joined Novartis Pharmaceuticals as senior V.P. and head of the Swiss company's U.S. commercial operations in 1999.

"Novartis had experienced several years of single-digit growth, mostly from price increases, not new product sales," said Graves. Under his direction, Novartis relaunched and repositioned several brands that were underperforming and created a new commercial mindset and infrastructure that was capable of successfully launching the company's new drugs in the U.S. In the early 2000s, Graves and other members of the company's rejuvenated U.S. executive team directed the turnaround and U.S. launch of multiple new drugs. Novartis began a four-year period of 20 percent annual growth.

Impressed with the turnaround in the U.S. operations, Novartis' global leaders persuaded Graves to instill in Europe and Asia the insight-driven approach to marketing, drug development, and branding that he had implemented in the U.S. In 2003, Graves moved to Novartis' worldwide headquarters in Switzerland as the company's first chief marketing officer and head of the general medicines business unit.

After five years as a member of Novartis' global executive team, Graves was ready for a change — and the opportunity to help build an entire company as he had done earlier in his career at Astra Merck. That meant leaving Big Pharma so he could get his hands on the many different levers that drive a company's success. In 2007, he joined Boston-based Vertex Pharmaceuticals as the early-stage company's first executive vice president, chief commercial officer, and head of corporate development and strategic drug development. The company's pipeline then included a hepatitis C virus (HCV) drug in clinical development and two preclinical cystic fibrosis (CF) drugs, one of which is Kalydeco, the first FDA-approved drug for CF. "It was a very exciting time for Vertex," Graves said.

After two-and-a-half years, Vertex had grown from \$1 billion to \$8 billion, but Graves was not happy. "While Vertex had great medicines coming through the pipeline, it turned out to be quite a bit different from what I was looking for,"



“HAVING MORE SALES REPS THAN YOUR COMPETITORS HAS BEEN THE COMMERCIAL MODEL FOR MANY YEARS, BUT THAT MODEL IS SERIOUSLY BROKEN.”

**KURT GRAVES**  
President & CEO, Intarcia

he said. "There was a series of rapid and unplanned changes at the board and CEO level, and at the same time the company wasn't making some strategic moves on the HCV front that I and a couple of others felt were key for winning long-term."

## LOVE IT, CHANGE IT, OR LEAVE IT

"One of the biggest changes I wanted to make on a key executive hire in HCV got shot down by the head of R&D and the CEO for the wrong reasons, and that proved to be a fatal mistake for Vertex in HCV," said Graves. "With all of the changes and resistance, I realized I was still working on important medicines, but I wasn't having fun, and after 20 years in Big Pharma, I was looking for a different culture and far less politics. It's moments like that when you have to decide whether to love it, change it, or leave it. I think it's a really healthy thing to know when to move away when something doesn't fit, both for yourself and the company."

After leaving Vertex, Graves did not immediately search for a job but for knowledge — he wanted to understand how biotech companies operate and are funded. He met with numerous biotech entrepreneurs and venture capital and private equity officials. "I was astounded by how much innovation occurs in biotech companies and academia," he said. "Truly

disruptive technologies and products tend to come from smaller, faster, more flexible, and more innovative companies not tied to the business models of the largest pharmaceutical firms.”

For his next position, Graves was determined to find “something special, a once-in-a-lifetime opportunity.” He decided to seek board positions that would enable him to fully assess five early-stage companies from the inside. To identify the boards he wanted to join, Graves systematically evaluated more than 50 biotech companies. He agreed to serve as executive chairman of Radius Health and Intarcia Therapeutics, the two companies “that I loved the most,” he said.

In 2010, Graves was introduced to Intarcia by Bryan Roberts, Ph.D., whose firm, Venrock, had invested in the company. “Bryan was leading the charge for change, knowing the runway wasn’t going to last much longer,” Graves said. At Roberts’ request, Graves spent one week at Intarcia. “I did full due diligence and came back to the board with my thoughts and recommendations for change,” he said.

“While the company was clearly struggling, the more I dug into it and learned about its technology, IP, and early clinical data, the more excited I became,” he said. “After a few days of connecting new ideas and seeing new possibilities, I told Bryan that Intarcia’s technology could be the most exciting platform that I’ve ever seen.” The company had determined how to stabilize therapeutic proteins, peptides, and antibody fragments at human body temperatures for extended periods of time. The technology provided a possible new route for once- or twice-yearly drug administration.

At the board’s request, Graves agreed to serve as executive chairman. “I wanted to do more diligence, meet potential partners, get to know the team, and meet with the FDA to see if the early vision I had was possible or not,” he said. “I fell more and more in love with the company and our possibilities.” In 2012, he agreed to serve as full-time chairman, president, and CEO because of the “potential to open up a new category of disruptively innovative once-yearly therapies for chronic diseases, therapies that could deliver a real win-win set of outcomes for all of our stakeholders, patients, payers, providers, and shareholders.”

## THERAPY ELIMINATES PATIENT NONADHERENCE

Intarcia’s late-stage investigational product for type 2 diabetes, ITCA 650, is a tiny matchstick-size osmotic mini-pump that is placed under the patient’s skin by a trained physician or nurse. For up to one year, the mini-pump delivers a continuous, consistent amount of exenatide, which is now administered by frequent self-injections as the FDA-approved AstraZeneca medications Byetta and Bydureon. “In type 2 diabetes, 70 percent of patients don’t adhere to their therapy after just six to 12 months, and that is when bad things can happen,” Graves said. Intarcia will file for regulatory approval for ITCA 650 in the U.S. and EU in 2016. If patients and physicians have positive experiences with ITCA 650, the company’s mini-pump technology could be adapted for

the treatment of other chronic diseases characterized by high levels of patient nonadherence.

Graves emphasized the importance of each individual’s experience with ITCA 650. “I’ve helped launch over 20 drugs, and with each one, I’ve found that a physician’s opinion about a new therapy is primarily determined by the experiences of the first three to four patients,” Graves said. “How well those patients do is one of the most important things that I’ve learned about the success or failure of a new therapy.” In his first meeting with Intarcia’s board, Graves proposed the creation of an officer-level position titled Head of Customer Experience and Outcomes (CXO).

“When you have a disruptive and innovative medicine in a category like diabetes, you must do everything from day one to optimize training, identify and implement best practices, and continuously enhance technologies to

## “WE PROACTIVELY STAMP OUT POLITICS”

Soon after taking the helm at Intarcia Therapeutics, Kurt Graves organized a leadership team retreat to identify the company’s vision and core values. Trust was one of the six values that the group agreed upon, and one of the qualities that Graves and his colleagues used to define trust was a strong aversion to office politics and personal agendas.

“We proactively stamp out politics at our company,” said Graves, whose almost 25-year career has included executive positions at Merck, Astra Merck, Novartis, and Vertex, as well as the privately held Intarcia.

Graves added, “How a leader guards against political agendas means everything to a company. If a CEO allows office politics to exist, the company’s values are undermined, and the culture is certain to get bad. The only question is, how bad?” Turning a blind eye to office politics can result in backroom alliances and decisions, nontransparent agendas, a proliferation of bureaucracy, unhealthy competition among staff, and most importantly, a general loss of confidence in the workplace as a trustworthy environment, he said.

On the second day of the leadership team retreat, the 47-year-old Graves asked the leadership team to “put our values into action,” by assessing how the staff of the Boston-based company fit the newly established values. A few staff members did not score high on trust. “Although their individual job performances were good, they were holding us back and not acting in the best overall interests of the company. They were creating issues and not unleashing the full potential of the staff around them,” he said.

Staffing changes occurred at every level from officers to managers. “It made a huge impact on our corporate culture far more than just hanging posters on the wall and talking about it,” Graves said. “These changes were necessary for us to advance. We have far too much to accomplish to lose our sense of urgency, passion, and tenacity by allowing bureaucracy and politics to creep into our operations.”

optimize the entire customer experience right from the start," he said.

The CXO's first assignment was to work with two Boston-based engineering firms to design a novel placement tool that would insert the exenatide-loaded mini-pump under the skin as fast and flawlessly as possible. Three years ago, an average 12 to 15 minutes was required to complete the procedure. "Now it can be done in less than one minute," said Graves. The error rate of physicians and nurses trained to insert and remove the pumps has been reduced to less than one percent. "The CXO and his team are developing next-generation placement and removal technologies that will continue to improve the customer experience," he said.

Unlike most biotech companies, Intarcia has not depended on Wall Street and public investors for the substantial monies required to conduct and complete global Phase 3 clinical trials, submit regulatory filings, and commercially launch a new therapy. Intarcia instead secured more than \$1 billion from private financing and novel deals and partnerships and more than \$1 billion in up-front and potential milestone payments from its partnership with the independent French pharmaceutical company Servier, which obtained the commercialization rights to ITCA 650 worldwide.

## NO IPO ...YET

By not pursuing an IPO, Intarcia has retained complete strategic and financial control of ITCA 650, and the company's senior team does not have to spend a significant portion of its time "on public-company topics that can be highly distracting," said Graves. "At some point we will become a public company." Intarcia could consider an IPO after regulatory approval and the full launch of ITCA 650 and once additional products are added to its pipeline. These significant accomplishments should strengthen Intarcia's valuation and thereby boost considerably its public offering price.

Large global pharmaceutical companies currently dominate the type 2 diabetes market. Graves is often asked whether Intarcia will compete by hiring more sales representatives than the Big Pharma companies have for their type 2 diabetes drugs. "If ITCA 650 were a pill or injection, we might hire lots of sales reps to compete for market share. Having more sales reps than your competitors has been the commercial model for many years, but that model is seriously broken," he said. "Today we live in a healthcare environment in which payers have the most control, and payers are focused on the aggregate facts including overall

patient benefit or outcomes and impact on healthcare costs."

So instead of hiring 2,000 sales reps, Intarcia is funding five head-to-head superiority trials comparing ITCA 650 to current standards of care for type 2 diabetes. Top-line results of the first head-to-head Phase 3 trial were announced in August 2015. In the 52-week study, ITCA 650 was shown to be more effective than Merck's market-leading oral Januvia in achieving glucose control and weight loss.

"The results of these clinical trials will show our differentiated value proposition to payers, and they will then help us drive appropriate use of our medicine with physicians and patients," he said. "Many leaders strive only for incremental differences or less, which leaves you in a position without any evidence of real advantages that will matter to payers, patients, and providers. Real differentiation, for payers in particular, demands much more."

Graves continues to fall in love with companies. His latest is Seres Therapeutics, which announced in November 2015 that Intarcia's chairman, president, and CEO joined its board. Graves also serves on the boards of both Achillion Pharmaceuticals and Pulmatrix Pharmaceuticals and chairs the boards of both Radius Health and Intarcia. **L**

