



Amgen's Kevin Sharer sees the biotech industry akin to a battlefield.

CEO Interview

Bracing for the Biotech Battle

Kevin Sharer, Amgen

Kevin Sharer, CEO of Amgen, has a militant look that belies his relaxed sweater-and-shirt attire. In fact, it belies the whole laid-back, collegial feel of the biotech company, with its scattered waterfalls and Zen garden inhabiting a 194-acre campus in Thousand Oaks, Calif. But in Sharer's sunlit office is a statue of a fearsome Chinese warrior;

we found Sharer in a similar mood. Sitting ramrod straight, the 59-year-old CEO looked every bit the former Navy man he is. The Amgen chief is going head-to-head with both Johnson & Johnson and Roche in the marketplace and the courthouse to defend Amgen's franchises. It's more than just business. When asked if he ever wished to emulate venerated pharmaceutical giant Johnson & Johnson, Sharer snaps: "Never. Never. Never. We are complete foes."

Sharer started his career in the U.S. Navy; by 27, he was a lieutenant commander on a nuclear submarine. Figuring he could rise faster in a corporation than in the military, he jumped ship to McKinsey & Co., then later to General Electric and MCI. Sharer joined Amgen as president and chief operating officer in 1992 and quickly learned the language of biotechnology, which uses genetic engineering to find cures. Eight years later he was named chief executive. "The development of biopharmaceutical drugs is the most difficult managerial job I've ever had," says Sharer. "Nothing is remotely close."

Once at the helm in 2000, Sharer made waves with a startling \$11 billion acquisition of Immunex, best known for Enbrel, its blockbuster rheumatoid arthritis drug. He then swept the management decks and injected some regimentation into what had been Amgen's free-spirited startup culture. Today Amgen has grown-up problems: It faces unprecedented competition in its anemia drugs, legislators are threatening to reduce Medicare reimbursement, and Wall Street keeps demanding more and more blockbusters to maintain double-digit growth. Because all of this makes running a nuclear submarine look easy, SMARTMONEY senior writer Dyan Machan sat down with the Amgen chief to solicit his thoughts.

Your anemia drugs Epogen and Aranesp, which make up half of Amgen's \$12.4 billion in sales, are under some

serious competitive attack.

It's our biggest single market, but we have three other multibillion-dollar products.

Okay, but in the meantime, Roche is expected to introduce its anemia drug Cera this year.

We are suing for patent infringement to stop them. Roche introduced its product in Europe because Epogen was going off patent in Europe. Since they had it already, they decided to take a free shot at the U.S. market [where Amgen's Epogen patent remains]. My opinion is that they offer no innovation.

Some very smart people are betting you're going to lose.

It sounds like the same people who said we would lose the patent case in 2003. We did not. [In 2003 a federal appeals court ruled that Transkaryotic Therapies' Dynepo drug infringed on two Amgen patents.]

You have a Hatfield-McCoy history with J&J. Can't you two just get along?

AN EYE ON THE PIPELINE

Sharer expects that clinical data from new drug Denosumab will boost shares.



Everyone needs a tough competitor to be good. So I respect that. However, we're going to fight J&J everywhere for a long time. We've been doing that for 15 years, and it will never stop.

Johnson & Johnson is suing Amgen for antitrust violations; it claims your practice of bundling the competition-free Neulasta [a drug that bolsters white blood cell production and is used by chemotherapy

patients] with anemia drug Aranesp [which competes with J&J's drug Procrit] hinders competition.

Physicians can buy our drugs individually. But if they want the very best price, they have to combine it. It is not an unusual tactic. Giving discounts for bigger combinations was pioneered by J&J.

What's in your pipeline?

Vectibix, for colorectal cancer, is just out. It has multibillion-dollar potential. The

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reception has been great. Also coming is Denosumab for osteoporosis and for cancer; key data will be available in 2008.

Denosumab won't come to market until the next decade. How does that help now? Stocks tend to move on clinical data. If revenue doesn't show up, that's another issue. The year 2008 is going to be an important one. We should have a ruling on the Roche patent case, and we will have data on Denosumab.

Why not have your scientists make a wrinkle cream for a big payout?

We find cures only for grievous illnesses. We won't make a drug for a toenail infection. Drug development is hard; you can't do everything. These illnesses present large, unmet needs. We aren't completely altruistic. But we do ask ourselves: What did you do that counts? It helps us attract good people.

You have raised your research and development budget every year. This year you promise another double-digit advance. That sounds desperate.

It's the opposite. There are so many promising areas where we want to invest—Alzheimer's, diabetes, Parkinson's.

Your biggest customer is Uncle Sam.

The new Congress makes no secret that it wants to negotiate lower prices for Medicare patients.

There is a societal need to better manage health care costs.

Diplomatic answer. Now set Congress straight!

The new leadership of Congress may be surprised at how effective the private plans have been in negotiating prices. I think

they'll find government negotiations won't be the financial bonanza they imagine.

Speaking of anemia, your stock sells at half the multiple of Genentech. Why?

When I started, Amgen had a 70 price-to-earnings ratio, largely because Aranesp was new. Genentech has a big product right now—Avastin [for lung and colorectal cancer]. We have some uncertainty.

You're sounding unsure about the case against Roche.

We are going to win. If we beat Roche and Denosumab is a success, Amgen is a very good value, and now is the time to buy. If you think something else, you buy someone else. I think as CEO if you're not betting your job, the company is not going to move ahead.

Are you willing to bet your job right here and now?

If Denosumab fails, if we can't defend against Roche and if J&J beats us—I won't be in such good shape.

Is running Amgen more difficult than running a nuclear submarine?

I was the No. 3 officer and 27 years old. I was overmatched then. I've had a lot of time to prepare for this job.