Spinout Success Stories

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As health-care companies come under increasing profit pressures, they are focusing more on their core businesses and technologies at the expense of peripheral activities. This is presenting an opportunity for more spinouts--the taking of a technology or business unit from an existing company and creating a new startup to further develop and support it. The trend toward spinouts is good for the industry and will likely accelerate as companies recognize the many advantages offered by this avenue of diversification, provided they carefully screen for solid spinout candidates.

Spinouts represent a cost-effective way to begin a new enterprise and typically proceed to first product with far less cash consumed than startups that begin from scratch. They are also a practical way to move projects forward when corporations cannot devote time, money, or resources. And, in most cases, they have proven to be good investments for the parent corporation. On the down side, established companies have limited experience in putting such precedent-setting offshoots into place, a process that can be chaotic and disruptive.

In the past five years, I've been involved in a number of spinouts that were created to pursue a market or application outside the parent corporation's realm. A few of these are described in what follows. Partially responsible for the success of these endeavors is the fact that despite the divergence in paths, there are synergistic goals for the parent company and spinout.

GenPharm International

GenPharm (Mountain View, CA) was formed in 1988 to pursue transgenic animal technology for health-care applications as a spinout of Genencor International (Rochester, NY), whose focus was on industrial applications only. Jonathan MacQuitty, now president and CEO of GenPharm, was the officer at Genencor responsible for championing spinouts. He and Genencor, an outgrowth of Genentech (South San Francisco, CA), viewed the spinout as an opportunity to capitalize on work begun internally and as a way to leverage seed capital invested in a European operation. Genencor received equity in GenPharm, but did not acquire rights or provide services.

Today GenPharm is the leader in the research and development of transgenic animal technology for human health-care products, with operations in the United States and the Netherlands. In addition to its own product development, it is providing transgenic mice and rats for use as research models.

GlycoGen

The mission of GlycoGen (formerly of S. San Francisco, CA), another spinout of Genencor, was to build a niche pharmaceutical company based on expertise in manufacturing complex carbohydrates by enzymatic synthesis. GlycoGen was incorporated as an independent company in March, 1990 because its goals fell outside those of Genencor, and because GlycoGen required independent financing and Genencor did not want to incur additional risk.

Genencor contributed technology, money, space, and people while receiving equity in GlycoGen. In addition, the two companies signed a manufacturing agreement. In 1991, GlycoGen was acquired by Cytel (San Diego, CA), which recognized the significance of GlycoGen's technology and is now applying it to inflammatory diseases. With Cytel using Genencor's production capability, this spinout has created a new manufacturing relationship for Genencor while allowing it to participate in a new market.

Onyx Pharmaceuticals

Most recent is the spinout of Onyx from Chiron Corporation (Emeryville, CA). Early in 1992, we entered into discussions with Frank McCormick and other senior management at Chiron regarding the creation of an independent company whose focus would be the development and discovery of therapeutics for cancer and other diseases. Dr. McCormick's group has played a major role in furthering the knowledge base of the cellular mechanisms of cancer through pioneering research on *ras* oncogenes and intracellular signaling proteins.

In April of that year, Dr. McCormick, now Onyx's vice president of research, and his staff of 20 people moved to Onyx with an exclusive license on patented technology, applicable equipment, reagents, assays, and intellectual property. Chiron also invested in the new venture and allowed Onyx to operate in Chiron's facility until new headquarters were completed. The entire process was done efficiently, with minimal disruption and with a positive spirit of cooperation between Chiron and the venture capitalists involved.

I anticipate that, over the next few years, spinouts will become an essential part of any company's strategic planning. Spinouts will also account for a sizable amount of business for venture capital firms, as they offer an excellent way to get involved with a project that has people, momentum, technology, customers, and patents. Ultimately, this trend will benefit the entire industry, as peripheral businesses are successfully turned into new enterprises that bring additional products to market more quickly and efficiently.