Interview: Christian Dyvig, CEO, Lundbeck Foundation

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The CEO of one of Denmark's largest foundations talks about the merits of the foundation model, and the current strategies of both Lundbeck and ALK in the areas of diversification, internationalization of R&D, and what it means to be a Danish company.

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The end of the blockbuster era has put niche pharma companies in the spotlight. Denmark has been at the forefront of this transformation thanks to its niche domestic champions. Is there a ceiling for this model?

I am not religious about the notion that we have to be only in one therapeutic area. I can only speak for our companies, but with Lundbeck, when the company reaches the stage where it has a portfolio of drugs that cover most of the CNS indications, I would see no problem in entering a new therapeutic area, as long as there are interesting areas in which you can innovate and invest which are close to the company's strengths. But it's important that one doesn't bounce around, that one builds and keeps a competitive advantage. Even within CNS, there is a huge difference between an anti-depressant and a multiple sclerosis drug.

As long as we can find exciting things within areas that are close to the company's core, then why would we diversify? If there is a ceiling, it's when you get to the point in time that you feel that you have covered the bases and run out of high quality investment opportunities. Then I would consider moving to another area.

The foundation model of ownership is in many ways quite specific to Denmark. As the CEO of the Lundbeck Foundation, what does your role encompass?

If you look at the largest companies in Denmark, almost all of them are foundation controlled: the four big pharmaceutical companies – Novo, Lundbeck, ALK and Leo Pharma – but also, beyond Pharma, AP Moller, the largest industrial group in Denmark, and Carlsberg for example. We have a business community in which virtually all companies are foundation controlled.

This means that we control the majority of the shareholding. The Lundbeck Foundation has three subsidiaries. We own 70% of Lundbeck's shares, and only 30% of the shares are on the stock exchange. We own 70% of the votes and 42% of the capital at ALK, so again we control the company as we're majority shareholders. Last, we own since 2011 a third company called Falck, the largest international ambulance and fire fighting company.

What we do is decide on the board of the companies and monitor and help whenever the companies want us to support them. One of the things that we can support them with is capital, because in addition to the ownership of the companies we have capital at the foundation. If one of our subsidiaries wants to make a large acquisition then we can inject capital into the business, which enables the management team to make decisions for the long term.

This is something that has a lot of potential for innovation and the development of new drugs, which is something we couldn't do to the same extent if we were just focused on what the stock market wanted us to do.

Isn't the stock market sometimes a reality check for some companies? How do you make sure you don't get very comfortable where you are?

That is a risk. Many academic articles on foundations refer to the notion of "the dead hand." So if you have a dead hand as the owner of a business then you lose dynamism in the business. That's one of the reasons that we like our companies to be stock listed. The duality between our long-term nature and the short-term nature of the stock market brings a lot of benefit. It's in that friction that you end up having the best results.

Now, having said that, it's also about people. I used to be a senior partner at a private equity firm that was not known to be particularly light in their ownership approach with their subsidiaries. So if you ask the companies I don't think that they would say we have a particularly cosy relationship; I think they would say that they have a professional, hardworking and dedicated shareholder but also a demanding one.

Why are we demanding? That’s because the other part of being a foundation is our charitable activity dedicated to basic healthcare research. We’re not just a foundation for ownership purposes; we’re also a foundation for charitable purposes. So there is a friction even within the foundation in terms of wanting to make sure that we make as much money as possible so that we can be as charitable as possible.

Second, it’s important and a privilege that we have multiple subsidiaries because it reduces interdependence between the companies and the foundation, and that leads to a slightly different approach to the subsidiaries.

The last thing is that not only do we have the three subsidiaries and our charity work; we also have a venture arm at the foundation. I have the aspiration that we will create new companies at the foundation, so in that sense it’s quite a dynamic structure, and provides a nice loop. The profits that come up to the foundation are being used for new basic research. Over time that new basic research will hopefully generate new innovation, which will foster itself in new companies or in new products for established companies, which will then generate new profits. We have a circular system but we have it within a market driven system.

A circular system is perfect when you are in a virtuous circle, but if something goes wrong all the dominoes collapse. How do you ensure that this does not happen?

Our three subsidiaries are all Danish companies and the majority of our capital is tied up in the subsidiaries, but our cash is tied up in a fairly broad pool of global companies. We are a large shareholder in companies like Apple, Microsoft and Volkswagen, so we have a diverse group of multinational companies that we put our excess capital into. We don’t call ourselves a charitable foundation, we call ourselves an industrial foundation, and I think the industrial background means that our investments are also more focused on equities rather than on bonds. We deal actively in our own companies so we’re comfortable investing in other companies.

So far, the Lundbeck Foundation is highly dependent on the success of its three subsidiaries. When will the companies under the umbrella of the foundation’s venture capital fund emerge as strong players as well?

The biotech route is a long one. From a business perspective, most biotech companies should develop a drug to the end of Phase II or the end of Phase III and then should let someone else who already has market experience develop it further. Like anyone, I have a hope that someday there will be one of our biotech companies for which we feel that there isn’t a logical buyer and grow them into a full-fledged biopharmaceutical company. But we’re far away from that and I think this

situation is really the odd one out. It still makes more sense to sell a molecule to an industry leader once you've proven that you have a drug.

On the innovation front, countries in Asia are starting to assert themselves in the R&D area. From your perspective, do you see this as a threat or as an opportunity?

Both Lundbeck and ALK have quite a lot of R&D in China and the reason for that is very simple: some of the talent that we want to recruit prefers to live in China so it would be strange not to be there. Having said that, we still very much have a Danish-American focus in terms of research; for us there's no difference having research in China, Germany, or Denmark.

I am a businessman: I don't discriminate because of people's nationalities. We're totally blind to national backgrounds or anything else that is not a prerequisite for success.

Where there is a "Danishness" at the foundation is that our charitable donations are, today at least, only made to research related to Denmark. We provide grants for companies that conduct research in Denmark, or if the research is conducted outside Denmark, if the company has a relationship to Denmark. That could be because it's a Dane conducting it, or if it's conducted together with a Danish team. The reason for this is simply that this is where we know the market. That's only on the charitable side though; on the business side the world is global.

Are foundations the recipe for healthier profits in pharmaceuticals and life sciences?

I don't think one should overdo it: we are business people and we want to maximize revenues and profits like everyone else. I think what it does give us is this ability to work under this long-term umbrella if it makes sense to. The other thing it does, and this is something oftentimes overlooked, is to remove what I sometimes call the "easy way out". If you are struggling in a business then the temptation can be to sell the business. That temptation doesn't exist here. When we have hard times like all companies do from time to time, everyone knows that there isn't an easy way out of merging or selling. There's only one way forward and that's to work harder, dig deeper, and work your way out of a difficult situation.

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