

New Jersey Be-Deviled by Ed Silverman The Star Ledger

Mention New Jersey and all sorts of things may come to mind — icons such as Bruce Springsteen or Bon Jovi, popular television series such as *The Sopranos* and *Jersey Shore*, bad jokes about the NJ Turnpike. And to some people, the list may include the pharmaceutical industry. After all, the Garden State has long boasted that that it's 'the nation's medicine chest,' thanks to the large number of drug makers within its borders that develop medicines used around the world. For decades, in fact, politicians have used that snappy phrase to shore up what is, sometimes, a rather sullied image.

Yet that proud distinction appears to be fading. Over the past year or so, several acquisitions — Merck bought Schering-Plough, Pfizer scooped up Wyeth, and Roche consumed Genentech — have robbed NJ of thousands of jobs and, significantly, a pair of corporate headquarters. Nearly 3,600 jobs were eliminated or slated for elimination between January 2008 and February 2010, according to the filings made with the NJ Department of Labor.

This follows a period in which several large drug makers — notably, Merck and Novartis — established research facilities in and around Boston to capitalize on the high-profile teaching hospitals nearby. But brains aren't the only reason that big pharma has been heading north. Sometimes, streamlined regulations and tax incentives help; Massachusetts awarded \$60 million in incentives to Bristol-Myers Squibb, which is building a \$400 million facility in Devens, MA to produce biologics.

Meanwhile, the Great Recession is forcing NJ Gov. Chris Christie to greatly reduce the funding for a pair of programs that, for many years, provided incentives to convince biotechnology companies to locate or expand in the state. The move may help close a yawning budget deficit of nearly \$11 billion, but comes just as other states — among them, Pennsylvania and, not surprisingly, Massachusetts — are successfully competing to lure biotechs to their own domains.

The state budget cuts amount to \$40 million, which may not be considered a huge sum when compared to other government expenditures. But the possibility of rolling back even some of those cuts never emerged, despite dire warnings from industry insiders. The cuts "will have a significant negative impact on the continuing growth of an industry that is helping NJ maintain its role as a world leader in the discovery and development of innovative medicines," implored Debbie Hart, who heads the BioNJ trade group, during a recent testimony before the state legislature.

Granted, the situation is not so bad as to suggest there are hardly any drug makers left standing. Johnson & Johnson has global headquarters in NJ, along with several of its subsidiaries. Merck also has world headquarters and a manufacturing complex there. Bristol-Myers Squibb has an expansive R&D facility and other administrative offices in

the Princeton area. Sanofi-Aventis and Novartis continue to maintain their U.S. headquarters in the state. Roche does continue to maintain a sprawling campus just 30 minutes from midtown Manhattan, albeit with fewer employees than in the past. And Celgene, which is one of the largest biotechs, is also based in the state.

That list doesn't include any number of other facilities in NJ — from the first factory to make the recently approved Provenge prostate cancer vaccine sold by Dendreon to key administrative offices for such large generic drug makers as Sandoz, which is a unit of Novartis, Watson Pharmaceuticals, and TEVA. And there are countless smaller players that continue to ring the highways and state roads since enough of the largest companies are still doing business here.

There are some fairly logical reasons, in fact, that the pharmaceutical industry — and let's include biotechs in this discussion for the moment — will not abandon NJ altogether. For one, there is geography — a NJ location offers close proximity to Wall Street as well as major airports, crowded as they may be. And the ride to FDA offices in Maryland is just a few quick hours away — and even less if one takes a corporate helicopter.

Another key reason is demographics. Although NJ has a notoriously high cost of living, there is also has an enormous pool of educated talent. Finding a sufficient number of seasoned experts — employed and unemployed — in a wide array of related fields is much harder in most other states. Of course, there are an awful lot of former industry employees, particularly chemists and public relations specialists, now trolling for work. And some are finding themselves in Massachusetts, for instance.

The sad reality is that NJ appears unlikely to regain the stature it held for so long. There are enough pluses and minuses on both sides of the ledger sheet to debate whether a company should locate, grow or remain in the state. But the lack of a number of premier teaching hospitals, such as those found in Boston, remains a liability. And the growing pull of Asia is going to lessen the importance of traditional corporate campuses and their big staffs.

As more companies seek to do business in the Far East — notably India and, China — the number of decision-makers in NJ may remain static, at least for a time, but the population of do-ers — the employees who carry out much of the work — will eventually decrease. In other words, the biggest drug makers are highly unlikely to grow their payrolls in the Garden State or just about anywhere else in the U.S., except for the specific projects or departments where the need makes sense.

Meanwhile, the consolidation trend may ebb and flow, but it won't disappear. Imagine if yet another big merger takes out yet another headquarters operation or prominent division. It's hard to imagine the shelves on the nation's medicine chest replenishing any time soon. Unless, of course, a biotech or two (or three) manage to emerge from the dozens of tiny companies that dot the state. Once upon a time, Celgene was a small

entity, so the possibility exists. And if NJ winds up as home to the next Genentech or Amgen, the state could regain its pre-eminence.

This is why BioNJ's Hart is frustrated by the budget cuts. Of course, BioNJ is a trade group that represents the interest of its members, which are biotechs that would appreciate as many government incentives as possible. But she has a point when she explains that the return on investment offered by state plans justified continued funding.

One program, with the not-so-eloquent moniker of Technology Business Tax Certificate Transfer Program, received \$60 million last year and, of that, \$34 million was earmarked for biotech and that helped leverage another \$510 million in new capital funding. Funding for this program, however, will be cut in half. Meanwhile, the \$30 million funding for the Commission on Science and Technology, which runs an incubator, would be eliminated. Yet this program returned \$31 for each dollar invested. And overall, for each job created in a NJ biotech, another 5.8 are typically added, according to a report that BioNJ likes to cite. The report actually uses a national average, but even paring back the calculation still yields a positive outcome for the state.

Moreover, the kind of treatments researched by biotechs — those large molecule biologics that often generate substantial revenues — only underscore the potential this sector holds for the state, at least if the stars are aligned. A biotech has to have sufficient backing — whether from investors or a big pharma partner — to develop the right molecule for the right population of patients and then prove the treatment offers a benefit and value beyond anything else already available.

Consider that many of the biggest drug makers are increasingly interested in this business and nine of the top 10 best-selling drugs in 2015 are forecast by Credit Suisse to be biologics. Granted, many of those 10 names are familiar, because they are currently available. But the list underscores where the emphasis will be when it comes to the sort of treatments that are expected to be widely used. And for big drug makers that are unable to develop their own, looking toward a biotech is the next step.

So if NJ wants a piece of the action that, ultimately, flows from big-selling treatments, the state government will have to find a way, however it gets done, to create a more attractive environment. Otherwise, the nation's medicine chest may eventually resemble just another bare cupboard.

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