

Barrier Therapeutics, Inc. (BTRX) “Spin-out” from Johnson & Johnson

*“From Idea to IPO and Beyond: Practical
Lessons from an Entrepreneur”*

Al Altomari, former CEO BTRX



Learning Objectives

- How did the BTRX get “off the ground”
- Understanding the pro/con of the “spin out model”
- What are the lessons learned from the BTRX experience
- In this difficult market will there be more spin outs - YES

The birth of BTRX



The proud father of BTRX
Geert Cauwenbergh, Ph.D.

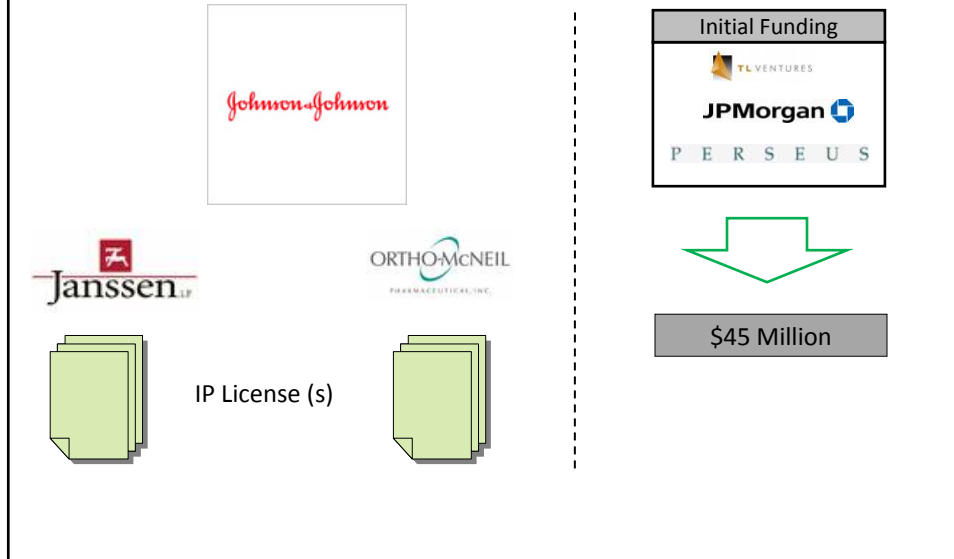
Dermatology Spin-out

Strategic framework

- J & J like most large pharmaceutical companies found the “specialty businesses” posed a strategic quandary:
 - High margins; leveraged business
 - “Cash cows” easy to maintain; generally not a significant cliff risk
 - R&D efforts can distract from “block buster”
- Spin-outs can provide an orderly transition of pipeline assets to a 3rd party.
- J & J could participate in value creation via equity.

BTRX – Initial Business Model

BTRX was granted IP License from J&J in return for new-co equity (Barrier); VC would provide initial capital.



BTRX – Initial Business Terms

- BTRX was granted royalty free world wide license with sub-licensing rights (one asset had a pre-negotiated option).
- J & J initially owned approximately 1/3 of BTRX; board seat was also granted.
- BTRX had complete autonomy with pipeline decisions and commercialization.
- BTRX was provided data access (technology transfer) and rights to cross reference key data in regulatory filings.
- J & J was granted a right of “first review” if BTRX wanted to partner/divest an asset.
 - Phase II
 - One time “first review” per molecule

BTRX – Corporate History

- 2001 incorporated and concept proposed to J & J
- 2002 initial funding
- 2004 IPO (J & J resigns from BOD)
- 2005 purchased Solage (approved product); initial sales force 21 FTE
- 2006 2 NDAs Approved
- 2007 full commercialization; 60 FTE and DTC
- 2008 sold to Stiefel Laboratories for 73% premium
 - Expected 2008 Revenue \$45 million
- 2009 Stiefel Laboratories is purchased by GSK
 - \$2.9 Billion upfront; \$.4 Debt assumed, \$.3 deferred payment = \$3.6 Billion

Was it the right time for going public?



- Realistically 2004 was the last window for “loss/R&D model”
- The street was looking for companies with revenue and prospects for sustainability
- Raising multiple rounds of capital was challenging

Lessons Learned

- Investors seemed to like the spin out model:
 - Management team
 - IP Position developed by “Big Pharma”
 - Initial development work perceived as well designed
- J & J is difficult to manage; even for former employees.
- An internal champion is critical; J & J Development Corporation championed BTRX.
- Operating company “buy in” is preferable; BTRX competed with the operating companies.

Lessons Learned *(continued)*

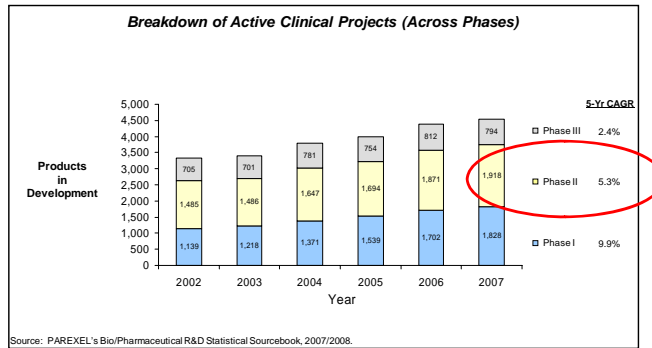
- Technology transfer lasted too long and was onerous on J & J:
 - No time frames; seemed to never end
 - Initially requests were ad hoc and not coordinated
 - “Alliance contacts” were put in place in both organizations (senior executives)
- J & J seemed open for creative deals:
 - Don’t present “concepts”; present detailed plans
 - Try to get the right people in the initial meetings
 - Traditionally not “top down”
 - Tendency not to use Investment Bankers
- Frequent communication and relationships.

State of Phase II

Can this fuel spin out trend?

Phase 2 Baby Boom
The Data

When we looked at the data, we did see something interesting. A growth in phase 2 programs that outstripped what was going on in phase 3.



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Will there be more spin-outs? YES

- Phase 2 assets have grown in large Pharma – a challenge to fund
- Mega mergers will force divestitures
- Venture Capital seems to like the risk profile of a spin out
- Private Equity willing to underwrite businesses throwing off cash



Thank you for your time Questions?

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