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New CEO expects an exciting ride at Lycera

Lycera Corp., a spinoff from the **University of Michigan** that is developing drugs to fight such autoimmune diseases as lupus, rheumatoid arthritis and psoriasis, first made big headlines in April 2009 when it announced it had closed on a Series A round of venture capital investment of \$36 million.



Kathleen Metters, Lycera Corp.

That number was eye-catching in and of itself, being one of the largest investment rounds in state history. But what made it particularly newsworthy was the timing: It came when capital markets had shut down worldwide, frozen by the recession and fears of another Great Depression.

Adding to the buzz was the quality of the brand name VCs that had joined the round: **InterWest Partners LLC**, a Menlo Park, Calif., firm with \$2.8 billion under management; **Arch Venture Partners**, a Chicago-based firm with almost \$1.5 billion; and **Clarus Ventures**, a Cambridge-Mass.-based firm with \$1.2 billion.

Lycera, founded by Gary Glick, a professor of organic chemistry at UM, had come a long way since getting a small amount of seed capital from Ann Arbor-based **EDF Ventures** in 2006.

In March, Lycera made more headlines when it announced a research collaboration with New Jersey-based drug giant **Merck & Co. Inc.** that would pay Lycera an up-front fee of \$12 million and up to a total of \$295 million in milestone payments if research went as hoped.

In June, Lycera moved from the **Michigan Life Science and Innovation Center** incubator in Plymouth Township to the UM North Campus Research Complex at the former **Pfizer Inc.** campus in Ann Arbor. In October, it announced the hiring of **Kathleen Metters**, Merck's former head of worldwide basic research and a holder of 29 patents, as its president and CEO.

Metters talked with *Crain's* reporter **Tom Henderson** about her plans for the company, whether it will need to raise more venture capital and her expansion plans for a Boston office.

How did you come to join Lycera? Was it a result of the development deal announced in March? No. I was headhunted. It's interesting. I negotiated the Merck deal before I left. I presented the scientific rationale for doing the deal. But that had nothing to do with taking this job. I was headhunted later. I got this offer. They said, "We've got this interesting opportunity for you to look at." Because I'd done the due diligence on the science, already, obviously I was very interested.

When you were head of basic research, you had 3,000 people under you. Now you're at a tiny university spinoff. Why take the leap? There were several attractions for me. One was the therapeutic area. Although I had been head of Merck basic research, my specialty is in immune responses and inflammation, which is what Lycera specializes in. This has always been a passion for me and is an area with a lot of unmet needs. There are 80 to 120 small and medium-size diseases that fall into the autoimmune bracket for which there currently is no treatment. Rheumatoid arthritis is a big market, but there are smaller niche and orphan markets, too.

It was attractive because I was going to be working with very good, experienced researchers. There are a lot of ex-Pfizer researchers here. We have very strong chemists. I'm a biochemist. And then there was the opportunity to move into being a CEO. I've never raised money or been involved in the venture capital world, so that will be

interesting.

Lycera stunned folks locally when it closed on that \$36 million VC round when no one in the world was raising money. I know that the money was contingent on hitting milestones and that at least two tranches of money came in since the deal was announced. Do you still have dry powder left from that round? And will you need to be going back to your investors for a B round? We've still got one tranche of the Series A round left. The upfront money from Merck allowed us to hold off on using that, so we won't need to raise any money for a while. What I want to do is build a sustainable drug company, and that is extremely difficult in any economic climate, particularly this one. I'll need to raise both dilutive and nondilutive money. The dilutive includes money from Merck, from grants, from partnerships. But I don't have a complete strategy just two months in.

Where are you at in terms of drug development? We're working with several molecules from several chemical classes and going through safety and efficacy tests in animals. We've identified some that are very effective in autoimmune diseases, including arthritis. The preferred option to getting them to market is to license them to Big Pharma. Big Pharma prefers some clinical data, and as we add that, that's where you get maximum value.

Tell me a little about the Merck deal. The target is a molecular master switch for different forms of immune-related diseases. It's a pathway with a lot of preclinical validation ... Merck will do clinical development. This is in pre-clinical development now, with a joint team. Merck pays for seven full-time equivalents, which amounts to about \$300,000 per person per year, including equipment and supplies. It also funds seven FTEs the second year and five FTEs the third year.

Has Lycera been adding jobs, and is it looking to hire now? We've got 25 employees. We hired about 10 employees this year, and we have a few selective positions open for 2012. I'm currently recruiting a chief medical officer, which will probably mean opening an office in Boston. That's the biotech capital of the world, and quite frankly it's going to be hard to get the candidate we want to move to Ann Arbor. The thought is, "If something happens to Lycera, what other job can I find there?" In Boston, they can always find another job. I haven't been in pharma for 23 years without

knowing it's one of the riskiest businesses on the planet. But at the end of the day, this is all about people. We have great people, and it's going to be an exciting ride.

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