

Allergan CEO Shares Vision for Future of Medical Aesthetic Industry

Editor's Note:

This exclusive interview with David E.I. Pyott, CEO of Allergan Corporation (Irvine, Calif.), is the first in a series of articles profiling industry executives that are driving the growth and direction of the ever-expanding medical aesthetic market.

Q: Allergan has traditionally focused on pharmaceuticals and eye care products. As the CEO, what were the specific reasons behind your strategic decision to create Allergan Medical and reorient the company towards an emphasis on the science of medical rejuvenation?

A: For 60 years Allergan has focused on medical specialties, addressing a specific segment of physicians around the world with a full range of products and services. In ophthalmology this strategy has proven successful in that Allergan has been the fastest growing global ophthalmic company for the last six years and is now the second largest company worldwide. Allergan (and historically Herbert Laboratories as the dermatology division of Allergan) has been involved in dermatology for some 40 years. In the field of facial aesthetics we were already deeply committed, thanks to the exploding use of BOTOX® Cosmetic as it became the number one non-surgical aesthetic procedure and the gateway product for facial treatments for most patients. It was therefore a logical step to establish a major presence in the new field of medical aesthetics. In each of our fields of activity, our strategy has been to work very closely with our physician customers in order to understand patients' needs and to direct our research and development (R&D) programs.

Following the 2006 acquisition of Inamed Corporation (Santa Barbara, Calif.), we created Allergan Medical as a new corporate division of the company, to unite the companies' medical device portfolio inclusive of

facial aesthetics, breast aesthetics and obesity intervention products under the strength of the Allergan name and also to differentiate the needs of a medical device business from the rest of our pharmaceutical operations.

Q: The acquisition of Inamed Corporation to obtain dermal fillers, breast implants and obesity control devices was both bold and risky from a pharmaceutical company perspective. Was this move opportunistic or part of a long-term strategic plan to consolidate the industry?

A: Making a \$3.2 billion acquisition entails a careful assessment of risk. We were, however very comfortable with the bet that we were making as we had undertaken an enormous amount of reading and analysis over a six month period before we announced our bid.

Having carefully examined the history of silicone breast implants and the continued use of these products around the world, outside North America since the voluntary moratorium in 1991, I rapidly realized that these products are the most investigated medical device category ever and that the safety record was very robust. Regarding dermal fillers we had searched the world for a first-class dermal filler to complement BOTOX and continued returning to JUVÉDERM™ as the best product in the world capable of competing head-to-head with the then market leader, Restylane (Medicis Aesthetics, Scottsdale, Ariz.).

Finally, our analysis of the opportunities for the LAP-BAND® System, the gastric band offering a less invasive alternative to traditional gastric bypass, confirmed that this is yet another major opportunity as we help to address the global obesity epidemic.

Clearly with the growth prospects for each of these sub-segments, we felt



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that the acquisition of Inamed would serve to further accelerate the growth of Allergan as a corporation. We also realized that the combination of the Inamed product lines with BOTOX Cosmetic (marketed as VISTABEL® in Europe) would make Allergan the largest player overnight, by a large margin, in the medical aesthetics market worldwide. With the acquisition of Corneal (Paris, France) in early 2007, we then replicated this leadership position in Europe as well as in Latin America and Asia as the marketing rights for JUVÉDERM were gained. Furthermore, this provided us with management control over the manufacturing facility and an ability to direct and heavily invest in Corneal's R&D pipeline. With our broad product line we have the largest sales force servicing dermatologists, plastic surgeons and other aesthetic specialty physicians.

In the field of gastric banding, we also made another acquisition in early 2007 – Endo-Art (Lausanne, Switzerland) which has telemetric gastric banding technology. In order to secure constant innovation and a stream of new products we are investing heavily into R&D. In addition to our internal innovation programs, we are also constantly evaluating technologies from other companies which we could either license or acquire.

Q: Allergan's invention of BOTOX and highly successful commercialization strategy was undoubtedly a historical turning point in the evolution of aesthetic medicine. The advent of BOTOX Cosmetic has enabled medical professionals throughout the world to tap into cash revenues from elective procedures with virtually no investment. What do you think the next major step will be in this evolutionary process?

A: The medical aesthetic market is responding to the global mega-trend of people's desire to remain healthy and active, and therefore rejuvenated in appearance as they age. Our strong investments into consumer advertising made more people aware of the options available to them. For

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physicians, it gave them new choices on how to configure their practices faced by the dwindling reimbursements from managed care organizations.

Looking ahead, we anticipate that there will be a need for an even greater range of science-based medical aesthetic treatment techniques, procedures and products which are at the forefront of our next-generation offerings such as JUVÉDERM.

As another example of our product range expansion, we just announced an exciting new partnership with Clinique Laboratories (New York, N.Y.) which will lead to the creation of a best-in-class skincare line – one that meets the need for uniquely formulated products complementary to in-office aesthetic treatments such as laser procedures, chemical peels and microdermabrasion – sold exclusively in physicians' offices. This collaboration will provide patients with a one-stop approach to specialized skincare products, under a brand name that is trusted by consumers, and backed by science that physicians can rely on. We expect these products to be available in the fall of 2008.

Q: Large-scale, direct-to-consumer advertising had never been applied to aesthetic procedures until Allergan obtained FDA marketing clearance for BOTOX Cosmetic as a wrinkle treatment and launched a subsequent campaign in the U.S. Recently, Allergan has applied similar mass marketing techniques for dermal fillers, breast implants and obesity devices. How are these efforts paying off in terms of driving significantly higher procedure volume to your customers?

A: Our investments in this area have been extremely successful, in large part because there is a substantial need and a demand for information about these new products and treatment options. As a corporation we spent approximately \$150 million, as measured by Nielsen Media Research, on consumer advertising in 2007.

Consumers and patients want choices and the power to make informed decisions about their well being and sense of self. We are meeting their request through significant investment in direct-to-consumer advertising as well as in many other educational, sales and marketing programs – whether for BOTOX Cosmetic, dermal fillers, breast implant options or obesity intervention solutions.

For instance, we launched a distinctive advertising campaign and educational/awareness initiatives aimed at expanding the dialogue about obesity and its profound impact on patients' lives. The response we've received to date – in visits to our website and requests to physicians about appropriate obesity intervention solutions – underscores the critical need for information about viable treatment options among the morbidly obese.

These markets – obesity intervention, facial aesthetics and breast aesthetics – are certainly responding to this approach. In just the first nine months of 2007 (the last period for which there is reliable market data available), the worldwide bariatric obesity intervention market grew 54%, the market for dermal fillers grew 37%, the market for breast aesthetics grew 20% and the market for neuro-modulators grew 19%. In each of these categories, Allergan holds either the first or second market position.

Q: The concept of mainstreaming aesthetic treatments has been discussed extensively by industry analysts and journalists. What does this really mean in terms of procedure volume statistics and the potential for market growth?

A: We believe the growth we're seeing is being driven not only by the aging of the baby boomer generation but also by growing demand among all age groups – and across social and economic demographics – for safe and effective approaches to maintaining a healthy and youthful appearance and self-image. While

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the market has grown substantially over the past ten years – with sales for non-surgical aesthetic procedures increasing by nearly 750% and consumers spending more than \$12 billion on cosmetic procedures in 2006 in the U.S. alone*, we believe it is still largely an untapped and young market with enormous growth potential. As part of this growth, it is our intention to mainstream the use of our products, among those considering, while harnessing the unique benefits and innovation associated with Allergan's brand offerings.

As just one example, the number of dermal filler procedures performed in the U.S. is still just about half the number recorded in Europe, which we believe was due, in part, to the limited choice of available collagen and hyaluronic acid dermal filler products and limited investment in truly expanding this particular segment of the market. We estimate that once JUVÉDERM entered the U.S. market in 2007, market growth accelerated from about 15% to 50%. In this and other areas, Allergan is committing substantial resources – in R&D, physician education and consumer awareness, sales and marketing, strategic acquisition or partnership – to continue to fuel market growth.

Q: There are definite signs of a recession in many sectors of the U.S. economy. Wall Street analysts have mixed opinions regarding the length and severity of this economic slow down. Given the constant market research and data gathering that your company conducts, what is your opinion of the impact these conditions will have on the U.S. (and global) aesthetic procedure volume in 2008? What advice would you give to physicians that may be worried about the near-term financial impact on their practices?

A: In reporting our 2007 business results, we experienced no direct visible signs of economic slow down in

*Statistics from the American Society for Aesthetic Plastic Surgery.

U.S. consumer spending as evidenced by the growth rates of each of the markets in which we operate. Additionally, it appeared that we captured market share from our main competitors. Historically, it would seem that spending on facial treatments was inelastic to economic cycles. Naturally we cannot predict the overall economic outlook but it is important to recognize that these markets are all relatively young with plenty of room to grow. So the economic slow down may be having some effect on this growth at the margins but it is clear that more and more consumers have an interest in these categories. Our next sales results will be announced at the beginning of May 2008.

Q: Allergan has one of the largest R&D budgets of any company, spending over \$600 million per year [in total, across both pharmaceutical and medical device businesses]. Given this very significant long-term investment, can you give us a glimpse of the future medical aesthetic products or procedures that might emerge from this pipeline?

A: Overall in 2007, we invested approximately \$650 million into R&D and in 2008 we are investing an additional \$110 million to bring up the total to about \$760 million or an estimated 17% of sales. In addition to medical aesthetics, this figure includes our substantial R&D commitments and investments in ophthalmology, neurosciences, medical dermatology and urologics to deliver advanced therapies and find solutions that provide physicians and patients with a full continuum of care.

In the medical aesthetics arena specifically, we are focused on the development of next-generation dermal fillers for facial aesthetic use and innovations in breast aesthetics including new materials, enhanced manufacturing processes and product designs. Specifically, we are working to bring products already available in Europe such as VOLUMA®, a volumizing hyaluronic acid based filler, and a JUVÉDERM product line incorporating

lidocaine, which was just launched in January, to North America.

Q: Given your experience and historical knowledge of other emerging markets, what needs to happen for the medical aesthetic industry to mature and sustain its overall growth rate

A: The increasing acceptance of aesthetic procedures is, in many ways, a direct consequence of the ability to mainstream the use of aesthetic products and procedures by providing responsible information on the options available to consumers today.

In addition, it is a result of how far new techniques in clinical practice and scientific advances have taken us in our ability to provide an increasing range of – and accessibility to – safe and effective treatments, from less invasive surgical procedures and techniques to next-generation innovations in dermal fillers and breast implant devices.

The market will undoubtedly continue to evolve, fueled by the growing demand among all age groups for products that help maintain a healthy, youthful appearance and self-image, and enhance the quality of life. Our success in growing the market – not only for Allergan, but for the industry overall – will depend on our long-term commitment to scientific discovery and innovation both in terms of intellect and R&D spending. A mission we take very seriously.

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