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Interview – J&J looks to external innovation to secure the future

Elizabeth Cairns

Johnson & Johnson's less-than-stellar third quarter results yesterday – revenues down 7.4% overall and medtech sales down 7.3% versus Q3 2014 – show how important it is for the company to look to new growth drivers in the future. This is particularly true in medtech; with the lion's share of its medtech sales coming from the heavily commoditised orthopaedics sector, the group could do with some truly disruptive technologies.

Shareholders will be gratified, therefore, by the efforts J&J is making to boost both its internal R&D and to foster innovation among other groups as well. "We're looking at developing an ecosystem outside our organisation where we can encourage start-ups, new technology development, and foster new organisations through a system of labs we call JLABS," Martin Fitchet, global head of R&D at J&J Medical Devices, tells *EP Vantage*.

This approach has been brought over from the pharma side of the business, where it has enabled J&J to obtain a much broader range of products, Bruce Rosengard, the group's chief medical science and technology officer, explains. J&J's Medical Devices unit is trying to replicate this success.

Investment or knowhow

The JLABS are intended as incubators, allowing start-up companies to rapidly create and test prototypes. Dr Fitchet says that these start-ups are "totally unencumbered"; they can develop their business and seek advice and feedback from J&J, but the larger group does not have any rights over their technology or intellectual property.

But while there is no obligation for the JLABS beneficiaries to partner with J&J, the company would surely be an obvious choice. "We're there supporting, advising, providing scientific and technical advice, and those systems will help generate a much richer innovation environment. That's good for everybody, hopefully us too," says Dr Fitchet.

Tissue Regeneration Systems is example of a company J&J has aided in this way. The company is developing a novel technology, using 3D printing to print unique scaffolds designed to fill bone voids, thanks to J&J's Boston innovation centre.

"That's one of the earlier ones and we'd like to do many more of those," Dr Fitchet says. "They develop their technology and we support it financially, with capital investment, or with knowhow."

The dearth of early-stage venture capital available to early-stage medtech companies means that JLABS and initiatives like it will be hugely welcome by innovators. Dr Rosengard says this new emphasis on incubators is partly a response to medtech's early-stage VC crunch (*Medtech venture financing crisis worsens, July 15, 2015*).

"Because there's a limitation in venture funding, that provides us with an opportunity to gain traction in that arena," he says.

That said, he adds that the real driving force is that even with the size and scale of J&J's internal R&D effort, it is impossible to cover the whole technological universe.

VC and M&A

J&J has for some time been making more direct moves to fund start-ups via its corporate VC arm, Johnson & Johnson Development Corporation. This is the single most prolific corporate VC investor in the medtech sector, *EvaluateMedTech* data show, having backed 34 companies since 2008. The next most active, Medtronic, has invested in 21 start-ups in the same period.

J&J's venture investment strategy is closely aligned with its innovation priorities, Dr Fitchet says. Historically J&J has either made small, early equity investments through its VC arm or outright company acquisitions. The goal of its JLABS innovation centre model is to add another option, often for companies at an even earlier stage that may not even have a prototype device to take to VCs.

Buying in technologies the old fashioned way is still something the organisation is considering. Management said on a conference call yesterday that, despite announcing a $10bn share buyback it was definitely interested in M&A deals. Whether these might be in medtech as opposed to pharma or consumer health is less clear.

J&J has been notable within the medtech industry as one of the few large companies that has sold off units rather than acquiring - divesting its Ortho-Clinical Diagnostics and Cordis interventional cardiology units over the past couple of years. Neither is it very acquisitive when it comes to medical devices: its purchase of surgical imaging company Olive Medical earlier this year was its first medtech deal for two years. For comparison, its peer Medtronic has bought 15 companies in the same period.

Focus

It may be redoubling its external efforts, but J&J is not neglecting its in-house R&D programmes. It has integrated the R&D efforts of its different businesses – including those of DePuy Synthes, Janssen and Biosense Webster. This integration is intended to allow J&J to focus on R&D at scale and encourage the crossover of ideas arising from different segments.

“The areas we are focusing on are trauma, osteoarthritis and joint replacement, obesity, diabetes and metabolic diseases, and also surgical oncology such as lung and colon cancer,” Dr Fitchet says. This fits well with J&J’s intention to specialise, focusing on its strengths and selling those businesses in which it has little chance of attaining a leading position.

The company says it is already seeing results from its renewed emphasis on internal and multifaceted external R&D, but it might be some time before the effects are fully felt. It is to be hoped that they do pay off; with VC funds increasingly reluctant to supply the cash start-ups need in their very earliest stages, initiatives like J&J’s are a welcome source of funding.

Success would bring a revitalised pipeline for J&J but more importantly could encourage other large companies to follow suit, fostering a new generation of game-changing technologies.

To contact the writer of this story email Elizabeth Cairns in London at elizabethc@epvantage.com or follow @LizEPVantage on Twitter