

ProEthic Pharmaceuticals enjoys phenomenal growth

BY MELANIE LEMAY

MONTGOMERY — Carl Whatley laughs when reminded that his college degree is in — well — history.

"That's right," he says ruefully, spreading his hands out to encompass the corporate paperwork piled on his desk. "I guess this is the only thing I can do."

"This" is corporate leadership so successful that even Whatley is surprised. After more than 20 years in pharmaceutical giant Wyeth, the Montgomery native took at gamble in 2001 and started a pharmaceutical company of his own.

Whatley admits that a pharmaceutical company isn't the easiest of businesses to start from scratch. Nor is Montgomery the most logical of places to start it.

Nevertheless, this laid-back history major has made his business venture work. In fact, it has worked so well that in less than four years, Whatley's ProEthic Pharmaceuticals has already returned 24 percent of its modest \$4 million start-up capital to shareholders, and is now building a 43,900-square-foot

headquarters off Interstate 85 at Montgomery Industrial Park.

ProEthic's success in the past three years stands to be surpassed only by its potential for the next three. And the common denominator throughout seems to be Whatley's uncanny instinct, tempered with business sense and some shots of good luck.

Whatley may appear disarmingly relaxed, but he's not a man who entered the high-stakes pharma game without plenty of preparation. "I knew we had a lot of potential potholes," he said. "A good lawyer told me in the beginning that our biggest risk would be making some really big and expensive mistake, so we had to have a good plan — and we had to execute that plan almost flawlessly."

Without the capital and facilities to compete on the research and development level with pharmaceutical giants, Whatley knew his little company would have to concentrate on smaller niche markets. An admitted "Internet junkie," Whatley searched cyberspace for overseas products that for one reason or another had not made a move into the U.S. market. One of his finds was a non-steroidal anti-inflammatory medication that could be delivered directly to the site of an injury through an adhesive patch. As soon as he read about the product online, Whatley picked up the phone and called the European developer.

Over the next 14 months,

Whatley nurtured that relationship. At the same time, he identified other potential products, drew up a business plan and assembled the nucleus for a start-up company management team.

"By 2001, I was getting increasingly disillusioned with big pharma," he said. "I told my wife I wanted to start a company that could be both 'professional' and 'ethical' — which of course led her to suggest that I combine those two words into a company name."

Internet junkie that he was, Whatley googled "ProEthic" and found no other ProEthics out in cyberspace. He snapped up the name and took the plunge.

Four years later, ProEthic is no longer an unknown quantity. The company's sales force has grown from five representatives in Alabama and Louisiana in 2001 to a current total of 84 reps in 31 states. Another 26 employees work on the operations side in Montgomery. In 2003, ProEthic generated \$7.2 million in sales, and then more than doubled that figure in 2004 with net sales of \$16.8 million.

Whatley's nucleus of a management team has solidified into a well-oiled machine, including pharmaceutical veterans Norman Schellenger and Marcus Elrod and seasoned business managers such as Ben Stakely and Jim Harwick. "I know it's a cliché," Whatley said, "but I really did look for people who were smarter than me."

It takes smarts to know smarts, though, and Whatley put his best instincts to work when he selected ProEthic's patent attorneys. Their experience and dogged research helped ProEthic uncover patent applications for drugs that had languished for years, allowing ProEthic to pinpoint and correct problems, and sometimes even resurrect potential for profitable products.

"Our patent attorneys have definitely kept us out of trouble," Whatley said. "And they have definitely found things that other attorneys have missed. As a small company, we have been very fortunate that they've taken such a personal interest in our success."

With its attorneys' support, ProEthic has expanded into the niche generic product market by creating a wholly owned subsidiary, Midlothian Laboratories. In 2005, Midlothian contributed gross sales of more than \$8 million to ProEthic's bottom line. Midlothian also went a long way toward making ProEthic a household name, supplying products to some of the nation's largest retail drug distributors. Among those who signed on the distribute Midlothian products directly were high-volume giants Walgreens, Eckerd, Wal-Mart and CVS Pharmacy.

And remember that transdermal



The brain trust for ProEthic Pharmaceuticals is (from left) Benjamin Stakely, senior vice president, operations; Carl Whatley Jr., chairman, president and chief executive officer; and Jim Harwick, senior vice president, finance.

patch Whatley found on the Internet? Just this past March, ProEthic sub-licensed it to Endo Pharmaceuticals. The \$24 million deal netted ProEthic some \$19 million and allowed ProEthic to buy back 2 percent of the royalty stream. It also allowed ProEthic to avoid costly product development and provided a strong shot of capital just in time to support two new up-and-coming ProEthic products.

Those two products are poised to be the next blockbusters for ProEthic, if the unerring instincts of Whatley are any indication. One will be a strong contender in the \$2.1 billion acute migraine headache medication market. Called "AuraStat," the medication is taken in what Europeans call a "sachet," or powder form. Whatley said studies indicate that the medication, which uses potassium bicarbonate as a buffer, is faster acting and has fewer side effects than oral tablets.

Pharmaceutical giant Novartis originally developed and researched this formulation, but its patent application stalled in 1997. ProEthic resurrected the application, made critical improvements, and was awarded the patent. As a result, ProEthic was able to negotiate an agreement with Novartis, allowing Novartis to market the product exclusively in Europe for migraine headaches, and giving ProEthic exclusive rights to market the medication in the United States and Canada. Novartis also agreed that ProEthic could use all recent and historical data generated by Novartis relative to the drug.

ProEthic's second ace is a medication for mild to moderate pain, a tablet that combines anti-inflammatory

ketoprofen with hydrocodone. Whatley said the combination will be a viable competitor against a popular medication called Vicoprofen, which combines ibuprofen with hydrocodone and generated sales of some \$65 million in 2003. Particularly for those patients who may not be able to tolerate ibuprofen, ProEthic's new product may be especially welcome.

Both products are now in the planning stages, involving high-level presentations in the halls of the Food and Drug Administration, licensing for add-on products, brand strategy, packaging prototypes, sales projections and training, and marketing campaigns.

Whatley smiles benignly at the thought. "Me? Stress? Nah, I've had more fun in the last three years than I've had in my whole life. My only regret is that I didn't go into business for myself 10 years sooner."

Whatley said the new ProEthic headquarters will be complete in early 2006. "It will give us some added credibility when we have visitors," he said.

He anticipates having ProEthic sales reps in all 50 states within the next year or two, with as many as 200 in the sales force by 2008.

Whatley said his reps will continue to market ProEthic products largely as they do now, building relationships with physicians and making product information and training convenient and accessible for health care professionals.

"And we'll continue to pay our sales force well. Commissions based on sales, paid every month. Company cars – though actually our reps drive Jeeps – and good

benefits. We have very little turnover, and we want to keep it that way."

If ProEthic's growth continues, Whatley projects revenues of some \$60 million by 2008. When asked where he himself would like to be in 2010, though, he stops to dream a little. "Ideally," he muses, "we'd be a mid-sized pharmaceutical company with about \$200 million in revenues. We'd have gone public. And we'd still be headquartered right here in Montgomery."

And would Carl Whatley still be CEO in 2010? He gives it some thought. "Oh, I don't know. I'd probably be off building some new kind of business by then. Maybe I'd start a lawn care company."

Melanie LeMay is a freelance writer based in Montgomery

NEW CORPORATE HEADQUARTERS

Location: Montgomery Industrial Park off Interstate 85, exit 11

(Midlothian Laboratories will remain at the present ProEthic location at 5331 Perimeter Parkway Court in Montgomery)

Size: 43,900 square feet, with plenty of land for expansion

Estimated completion: Early 2006

Contractor: Partillo Construction



ProEthic Pharmaceuticals hopes to move into its new 43,900-square-foot Montgomery headquarters in 2006.

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