



# LEADING AMGEN

CHARTS THE  
COURSE

DEVELOPS  
BEST TEAM

DELIVERS  
RESULTS

ROLE  
MODEL

## usc Marshall SCHOOL OF BUSINESS

Welcome to the Marshall International Case Competition of 2005.

You represent one of twenty four teams from schools around the globe participating in this business case competition. This is an opportunity to test yourself against an actual business problem as well as compete against several schools in presenting your recommendations to the panels of judges.

This year's case focuses on the world-wide bio-tech / pharmaceutical industries. In 2002 Amgen (AMGN) acquired Immunex - the fourth largest biotech company at the time. Today, the combined organization continues to grow at 17% a year in new jobs across 10 sites. Fortune magazine recently included Amgen among the *100 Best Companies to Work For* citing their recruitment of minorities (26%) and women (46%) plus a generous 401(k) plan. Today's competition places you into the shoes of Amgen management working to ensure the success of this merger in 2002.

You are provided a variety of materials to assist you in developing your response:

- A written case study which describes the situation facing Amgen management as they integrate Immunex with their organization. The case also provides a brief history of each firm and their market activities.
- An article from *Harvard Business Review* titled "Amgen, Inc.: Planning the Unplannable" which provides some background information as well as highlighting the different demands and time orientations between scientific personnel and management in research & development organizations.
- An article from *BusinessWeek* magazine titled "Blockbuster or Bust" which highlights the challenges faced in successfully completing the different phases of government supervised clinical trials and the high costs associated with such ventures.
- You may refer to Amgen's website for additional information about the clinical trial activities required by the government before a compound is released for the consumer market. Other biotech/pharmaceutical companies have similar information at their websites as well.

You are free to use other sources of information (excluding, of course, your faculty advisors) in preparing your recommendations. Specific guidelines and issues for your preparation of this case are provided at the beginning of the case. So dig in! And have fun.

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# Immunex

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## Immunex

Your challenge with this case deals primarily with implementation issues surrounding the acquisition of Immunex by Amgen in 2001-2002.

In forming your response you may consider a variety of factors such as the state of the industry at that time, the types of activities performed by each firm, and the implications of this integration upon each firm and the industry, consumers, etc.

The decision to acquire Immunex has already been made. Your role is to evaluate the factors which must be considered, and the activities which should be pursued to ensure a successful integration of activities and operations within these two companies.

Your audience is composed of the members of the Amgen Executive Committee responsible for this acquisition.

### Questions to answer:

1. What type of integration should this be:
  - a) takeover,
  - b) full integration,
  - c) fully-owned subsidiary, or
  - d) reverse integration?
  
2. What steps would you recommend to ensure a successful integration?



## Immunex

On the evening of Monday, July 15, 2002, Scott Foraker, Amgen's Vice President for Licensing, walked down the quiet halls of Immunex's research laboratory in Seattle and thought about the transformation that was about to begin around him shortly. Just eight weeks earlier, in May 2002, the shareholders of Washington-based Immunex, the world's fourth largest biotech company with net revenue of almost \$1 billion in 2001 had agreed to merge with southern California-based Amgen, the world's largest biotech company with net revenue of approximately \$4 billion in 2001 — after a 22 month-long courtship between the two companies — at a purchase price of \$17.7 billion<sup>1</sup>. On a pro-forma basis, the merged company would have revenue of over \$5 billion and would add the product Enbrel<sup>®</sup> — Immunex's star product that was a market leading TNF-based (tumor necrosis factor inhibitor) drug used in the treatment of rheumatoid arthritis and had accounted for almost 80% of the acquired company's total revenue in 2001 — to Amgen's product line, that already had included two of the three top leading biotechnology drugs: Epogen<sup>®</sup>, used in the enhancement of red blood cells among anemic patients undergoing kidney dialysis, and Neupogen<sup>®</sup>, used in the restoration of white blood cells for cancer patients undergoing chemotherapy.

As Foraker walked down the hallways of Immunex to his temporary office that served as a command center for the integration process, he noticed that some of the workmen working outside of the research lab had already begun to take down the blue-geometrically shaped logo of Immunex around parts of the building and replacing it with the blue curve-like logo of Amgen. Inside the building, where new business cards with the Amgen logo were already printed and being distributed, personnel from Amgen's information system area had already programmed an e-mail on the corporate web site and voice-mail on the company phone system from Kevin Sharer, the chairman and CEO of Amgen, that would welcome each former Immunex employee to Amgen when they arrived at their desk the next morning.

Foraker, who had been given the added assignment of overseeing the merger a few months earlier by Amgen's senior management, knew that

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<sup>1</sup> Joint proxy statement / prospectus of Amgen-Immunex merger sent to shareholders of both companies on or around March 26, 2002. Cost of \$17.7 billion acquisition of Immunex broken down as follows:

Value of Amgen shares issued	\$14,041.9 million
Cash consideration (including payments to Wyeth)	2,479.9 million
Value of Amgen options issued	1,111.7 million
Transaction costs	<u>30.0 million</u>
Total	\$17,662.5 million



***“Foraker...knew that the challenges of putting together two different cultures successfully would go beyond the mere symbolic changes of signage, stationery, and business cards on Day One”***

the challenges of putting together two different cultures successfully would go beyond the mere symbolic changes of signage, stationery, and business cards on Day One. He was responsible for making sure that the Immunex merger delivered on creating value for Amgen’s stockholders over the long haul by seeing that the management team hit five key objectives: Ensure that the Enbrel franchise Amgen was acquiring was not negatively impacted by the changeover in ownership; make sure that other Amgen product launches in the pipeline would not be distracted by the acquisition; ensure the corporate infrastructure of the two companies, especially in the areas of communications and information, were successfully merged; retain key marketing and research personnel from Immunex; and realize synergistic savings through the elimination of overlapping overhead corporate-related costs, such as legal and finance.

As Foraker looked at a checklist of things he had to do over the next 24 hours, he wondered how Amgen’s merger with Immunex would play out, especially how the cultures of the two organizations — one entrepreneurial, the other more established in the still relatively young biotech industry — would be melded into one.

## History of Amgen

In 1980, Amgen was founded by a group of researchers and venture capitalists, and George Rathmann — formerly of 3M and Abbott Laboratories — became the CEO. The company was formally launched in 1981 with an initial private funding of \$19 million, the largest initial equity financing of a biotechnology company to date<sup>2</sup>. The company went public in June 1983, raising \$40 million in its initial public offering. A second and third round of public offerings in March 1986 and April 1987, raised an additional \$38 million and \$71 million respectively. Gordon Binder, who had been Amgen’s chief financial officer since 1982<sup>3</sup> — and instrumental in raising early financing for the start-up — became the company’s CEO in October 1988.

Amgen — short for Applied Molecular Genetics— had not been the first company to enter the biotechnology arena. Genentech, which had been the largest and most successful biotechnology company until financial problems forced its sale to Hoffman-LaRoche in the early 1990s, had been the original pioneer when it was founded in 1977. Other companies, such as Cetus and Biogen, were soon founded thereafter<sup>4</sup>. By 2002, however, Amgen had become the largest biotech company in the world with revenue of over \$3.6 billion.

<sup>2</sup> Adapted from “Amgen Inc: Planning the Unplannable,” Harvard Business School case (9-492-052)

<sup>3</sup> “Amgen’s Ace,” Business Week Online, January 10, 2000.

<sup>4</sup> Adapted from “Amgen Inc: Planning the Unplannable,” Harvard Business School case (9-492-052)



Amgen's first breakthrough product came in October 1983, when, after two years of working on the project, researcher Fu-Kuen Lin discovered how to clone the gene responsible for manufacturing erythropoietin (later trademarked as Epogen<sup>5</sup> and licensed to Johnson and Johnson as Procrit for sales within the U.S.)<sup>6</sup>, which stimulated the manufacturing of red blood cells. Erythropoietin was seen as a particularly lucrative opportunity because of the more than 100,000 kidney dialysis patients in the United States. About 75% of these could be expected to take Epogen and each patient could generate up to \$4,000 to \$8,000 per year<sup>7</sup>. Final FDA approval for Epogen's use in dialysis patients came six years after discovery in 1989. In 2001, Epogen, with its second-generation Aranesp<sup>®</sup> drug product, was still growing strong with a total product revenue of \$2.15 billion.

Amgen's second breakthrough product came in the mid-1980s with the development of the molecule G-CSF, or granulocyte colony stimulating factor, that promoted the production of a certain type of white blood cell helpful in preventing and treating infection for chemotherapy patients<sup>8</sup>. G-CSF, brought to commercialization under the trademark name Neupogen, was expected by some to be an even larger success than Epogen because of the many potential derivative uses for which it could be approved<sup>9</sup>. By 2001, Neupogen had total product revenue of \$1.364 billion, after receiving final FDA approval ten years earlier in February 1991.

In early 2000, Binder announced that he would be stepping down as the Amgen's chairman and CEO. He was succeeded by his long-time COO, Kevin Sharer, who had first joined Amgen in 1992. Sharer assumed the CEO role from Binder in May 2000 and the chairman's role in December 2000.

## History of Immunex

Like Amgen, Immunex - founded in 1981 by Steven Gillis, Christopher Henney, and Stephen Duzan - was one of the original biotechnology companies that started in the 1980s. With a focus on developing immune system science to protect human health, the company grew to become the Pacific Northwest's largest biotech company<sup>10</sup>. Immunex was headed by Edward Fritzky, who had served as Immunex's chairman, CEO and president since 1994, having been previously

***“Like Amgen, Immunex was one of the original biotechnology companies that started in the 1980s”***

<sup>5</sup> Adapted from “Amgen Inc: Planning the Unplannable,” Harvard Business School case (9-492-052)

<sup>6</sup> See Amgen 2004 case study

<sup>7</sup> Adapted from “Amgen Inc: Planning the Unplannable,” Harvard Business School case (9-492-052)

<sup>8</sup> Adapted from “Amgen Inc: Planning the Unplannable,” Harvard Business School case (9-492-052)

<sup>9</sup> Adapted from “Amgen Inc: Planning the Unplannable,” Harvard Business School case (9-492-052)

<sup>10</sup> Washington Biotechnology and Medical Technology Online ([www.wabio.com/biohistory.htm](http://www.wabio.com/biohistory.htm))



***“Of the three products, Enbrel was the key growth product. In 2001, Enbrel, used in the treatment of patients with rheumatoid arthritis, had generated \$761.9 million, or almost 80% of the company’s revenue”***

president of Lederle Laboratories<sup>11</sup>. In developing new biopharmaceuticals, the company focused on four key areas of creating new therapeutics: Treating rheumatoid arthritis, asthma, and other inflammatory diseases as well as cancer and cardiovascular diseases<sup>12</sup>. The company’s main three products were etanercept, trademarked Enbrel; sargamostim, GM-CSF, trademarked Leukine®; and mitoxantrone, trademarked Novantrone®. Combined, Immunex had total 2001 revenue of \$986.8 million.

Of the three products, Enbrel was the key growth product. In 2001, Enbrel, used in the treatment of patients with rheumatoid arthritis, had generated \$761.9 million, or almost 80% of the company’s revenue. Since Enbrel was launched in November 1998, Enbrel had helped Immunex increase its net sales almost four-fold over three years, from \$243.5 million in 1998 to almost \$1 billion in 2001. As a result, the market value of Immunex grew by \$7.7 billion, between November 1998 (the launch of Enbrel) and July 1999.

Looking back on why Amgen decided to pursue Immunex, a Wall Street financial analyst observed in October 2003:

When Amgen acquired Immunex in 2002, the principal asset sought was Enbrel, one of the first products in a rapidly growing new class of injectable biologicals known as Tumor Necrosis Factor (TNF) Inhibitors. These products target a single protein involved in a wide array of inflammatory disease processes. TNF Inhibitors reduce the activity of natural TNF by different mechanisms, include direct binding of free, or circulating, TNF (Enbrel) and direct binding to both membrane or receptor bound, as well as free, TNF (Remicade, Humira). There are now three TNF inhibitors approved in North America: Amgen's Enbrel, Johnson & Johnson's Remicade and Abbott's Humira<sup>13</sup> (see Exhibit 1).

<sup>11</sup> Seattle Times, Northwest 100 (<http://taxis.seattletimes.nwsourc.com/cqi-bin/taxis.cgi/nw100/vortex/bio?mid25>)

<sup>12</sup> Joint proxy statement/prospectus of Amgen-Immunex merger sent to shareholders of both companies on or around March 26, 2002.

<sup>13</sup> Geoffrey Porges, Berstein Research Call, October 10, 2003



**Exhibit 1: Comparison of Leading TNF Inhibitors**

Adalimumab	Etanercept	Inflixinab
<p><i>Humira</i> Abbott Licensed in January 2003 Recombinant human monoclonal antibody Binds to free and bound TNF cells expressing bound TNF Produced in Mammalian Cells</p> <p><b>Dosing</b> Prefilled 40mg syringes Subcutaneous administration 40mg q two weeks</p>	<p><i>Enbrel</i> Amgen Licensed in November 1998 Recombinant human fusion protein Binds to free TNF Doses not cause cell lysis Produced in Mammalian Cells</p> <p><b>Dosing</b> Vials of 25mg powder for reconstitution Subcutaneous administration 25mg twice weekly</p>	<p><i>Remicade</i> J&amp;J Licensed in September 1998 Recombinant chimeric mouse-human monoclonal antibody Binds to free and bound TNF Lyse Lyses cells expressing bound TNF Produced in Mammalian Cells</p> <p><b>Dosing</b> Powder for reconstitution IV infusion 3-10mg / kg by infusion at 0, 2, 6 then q 8 weeks</p>
Adalimumab	Etanercept	Inflixinab
<p><b>Box Warning</b> Risk of infections esp. TB</p> <p><b>Other Warnings</b></p> <ul style="list-style-type: none"> <li>⌘ Demyelinating disease</li> <li>⌘ Increased incidence of lymphoma</li> </ul> <p><b>Adverse Reactions</b></p> <ul style="list-style-type: none"> <li>⌘ Injection site reactions in 20% of patients</li> <li>⌘ Serious infection rate of 0.04 per patient year</li> <li>⌘ 12% of patients become ANA positive</li> <li>⌘ 5% of patients develop drug antibodies</li> </ul>	<p><b>No Box Warning</b></p> <p><b>Other Warnings</b></p> <ul style="list-style-type: none"> <li>⌘ Demyelinating disease</li> <li>⌘ Pancytopenia</li> <li>⌘ No increase in rate of malignancies compared to expected</li> <li>⌘ Increased risk of infection including TB</li> </ul> <p><b>Adverse Reactions</b></p> <ul style="list-style-type: none"> <li>⌘ Injection site reactions in 37% of patients</li> <li>⌘ No observed increase in rate of infections</li> <li>⌘ 15% of patients become ANA positive</li> <li>⌘ &lt;5% of patients develop drug antibodies</li> </ul>	<p><b>Box Warning</b> Risk of infections esp. TB</p> <p><b>Other Warnings</b></p> <ul style="list-style-type: none"> <li>⌘ Demyelinating disease</li> <li>⌘ Increased incidence of lymphoma</li> <li>⌘ Heart failure may be exacerbated</li> <li>⌘ Immediate and delayed hypersensitivity reactions</li> </ul> <p><b>Adverse Reactions</b></p> <ul style="list-style-type: none"> <li>⌘ Acute infusion reactions in 20% of patients</li> <li>⌘ Delayed infusion reactions</li> <li>⌘ 52% of patients become ANA positive</li> <li>⌘ 10% of patients develop drug antibodies</li> </ul>
Adalimumab	Etanercept	Inflixinab
<p>Adults with moderate to severe RA who have had an inadequate response to DMARDs</p> <p>For use alone and in combination with MTX or other DMARDs</p> <ul style="list-style-type: none"> <li>⌘ Reducing signs and symptoms</li> <li>⌘ Inhibiting progression of structural damage</li> </ul>	<p>Patients with moderately to severely active RA</p> <p>For use as monotherapy and in combination with MTX</p> <ul style="list-style-type: none"> <li>⌘ Reducing signs and symptoms</li> <li>⌘ Inhibiting progression of structural damage</li> <li>⌘ Improving physical function</li> </ul> <p>Patients with moderately to severely active JRA Patients with active psoriatic arthritis Patients with active ankylosing spondylitis</p>	<p>Patients with moderately to severely active RA who have had an inadequate response to methotrexate in combination with methotrexate</p> <ul style="list-style-type: none"> <li>⌘ Reducing signs and symptoms</li> <li>⌘ Inhibiting progression of structural damage</li> <li>⌘ Improving physical functions</li> </ul>

**Road to the Merger<sup>14</sup>**

*“Amgen’s courtship of Immunex to merge occurred over a 22-month period, before the engagement was publicly announced in December 2001.”*

Amgen’s courtship of Immunex to merge occurred over a 22-month period, before the engagement was publicly announced in December 2001. The courtship began in early 2000, when Sharer and Fritzky met during a biotechnology conference in San Francisco and discussed possible strategic or other transactions involving the two companies. It was not until mid-2001 that Sharer first raised the possibility of a combination of Amgen and Immunex, with both the boards of both companies agreeing to a merger on December 16, 2001, after months of negotiations. Under the agreement, Immunex shareholders would receive 0.44 share of Amgen stock and \$4.50 in cash in exchange for each share of Immunex stock.

Shareholders of both Amgen and Immunex approved the merger of the two companies on May 16, 2002. Altogether, the acquisition cost of Immunex by Amgen was \$17.7 billion with Immunex shareholders holding 18.7% of the combined company after approximately 242.3 million shares of Amgen stock that was issued to Immunex shareholders. July 16, 2002 was set as the first day of the two combined companies.

<sup>14</sup> Parts of this section were adapted from the joint proxy statement/prospectus of Amgen-Immunex merger sent to shareholders of both companies on or around March 26, 2002.



## Planning the Integration of Immunex with Amgen

Once the acquisition of Immunex by Amgen was approved by the boards of directors of both companies in December 2001, Amgen quickly put together a project management team in January 2002, to see that the integration of the two companies would be successful. Appointed to head the company's integration efforts — which would also be managed by other Amgen executives with input from Immunex managers — was Scott Foraker, Amgen's Vice President of Licensing and an eight-year veteran with the company, who had been previously Amgen's associate counsel. Because the integration of the two companies demanded an executive with in-depth product knowledge, an understanding of legal sensitivities, and insight into regulatory issues, Foraker was an ideal choice for the Acquisition Initiative. In addition to merging the cultures of the two companies, the acquisition of Immunex by Amgen also had to be approved by the Federal Trade Commission (FTC). To concentrate on the integration of the two companies full-time, Foraker delegated his day-to-day responsibilities in the Licensing Department to Bruce Burton.

For Foraker and the Integration Team, there were four key objectives to achieve before the integration of Immunex with Amgen would be considered successful: Retain and fully incorporate the acquired capabilities of Immunex, such as key personnel in the Seattle Research lab, into Amgen; build the new organization with the additional staff; minimize disruption to business momentum with the launch of several new products; and realize expected synergies (see **Exhibit 2**).

**Exhibit 2: Principles for Ensuring a Successful Integration**

Retain and Fully Integrate Capabilities	Define the "New" Organization	Minimize Disruption to Business	Realize Expected Synergies
<ul style="list-style-type: none"> <li>z Start integration planning early</li> <li>z Agree upfront on integration principles</li> <li>z Develop a plan to optimize new organizations' capabilities               <ul style="list-style-type: none"> <li>– People, products, processes, assets</li> <li>– Quickly align incentive and compensation systems</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>z Design the high-level organization quickly               <ul style="list-style-type: none"> <li>– Roles for senior exec's for target — if and when</li> </ul> </li> <li>z Create an objective mechanism for decision making regarding technologies and program / project portfolio for the new entity</li> <li>z People issues especially important               <ul style="list-style-type: none"> <li>– Understand individual motivations</li> <li>– Design explicit retention plan</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>z Provide goals, responsibilities, deliverables, and timelines that are clear and measurable</li> <li>z Communicate broadly, often, and early               <ul style="list-style-type: none"> <li>– Both decisions and decision-making processes</li> <li>– Both within Millennium and at merger target</li> </ul> </li> <li>z Develop plan for maintaining key customer relationships               <ul style="list-style-type: none"> <li>– Pay particular attention to competitor activity</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>z Focus on long-term value and growth               <ul style="list-style-type: none"> <li>– Typically more important than short-term cost savings</li> </ul> </li> <li>z Scientists like to talk science — have them sharing science early to foster a sense of community</li> <li>z Quickly develop a financial baseline               <ul style="list-style-type: none"> <li>– Operating synergies are critical, even if not focus on merger</li> <li>– Tough financial decisions will inevitably need to be made</li> </ul> </li> </ul>

Source: Amgen

## Concerns about Merger

In putting together the integration initiative team and process, Amgen's senior management was quite aware, based upon past experiences of other Fortune 500 companies, that the full value of a merger to shareholders were often never realized. Management studies showed that mergers usually failed with only about 17% of acquisitions showing any substantial positive returns<sup>15</sup>. The top obstacles on why integration of companies failed were often related to people or the clash of cultures. The key reasons often cited were loss of productivity, incompatible cultures; loss of key talent, clash of management styles and egos, and inability to manage or implement change<sup>16</sup>. Management was

concerned that Immunex employees would be negatively impacted by the news of the acquisition and as the two companies merged (see **Exhibit 3**). As a result, it was imperative to have the Immunex employees involved with the planning of the integration process (see **Exhibit 4**) almost immediately as a way to assure alignment of goals, collaboration and positive working relationships (see **Exhibit 5**) between the two organizations.

Prior to putting together the acquisition initiative teams, Foraker relied on several sources to assure the success of the Immunex acquisition. Foraker recalled:

Even before I formed my team, I read books on acquisitions, received some information from Brian McNamee from his experiences at GE on acquisitions as well as some other information from BCG. In addition there had been a module put together by a group of vice presidents a year earlier on how to handle acquisitions, and I talked to people who had handled past acquisitions: The

### Exhibit 3: Six Signs of Acquisition Syndrome

What to Expect

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• <b>Right after the announcement</b> <ul style="list-style-type: none"> <li>– Preoccupation</li> <li>– Imagining the worst</li> <li>– Stress reactions</li> <li>– Crisis management</li> <li>– Constricted communication</li> <li>– Illusion of control</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• <b>As the companies integrate</b> <ul style="list-style-type: none"> <li>– Class of cultures</li> <li>– We vs. they</li> <li>– Superior vs. inferior</li> <li>– Attack and defend</li> <li>– Win vs. lose</li> <li>– Forced decisions</li> </ul> </li> </ul> |
|--|---|

From the work of Dr. Mitchell Lee Marks, author of *Joining Forces*, Consultant in over 75 acquisitions

### Exhibit 4: Change Management Actions for Integration Leaders

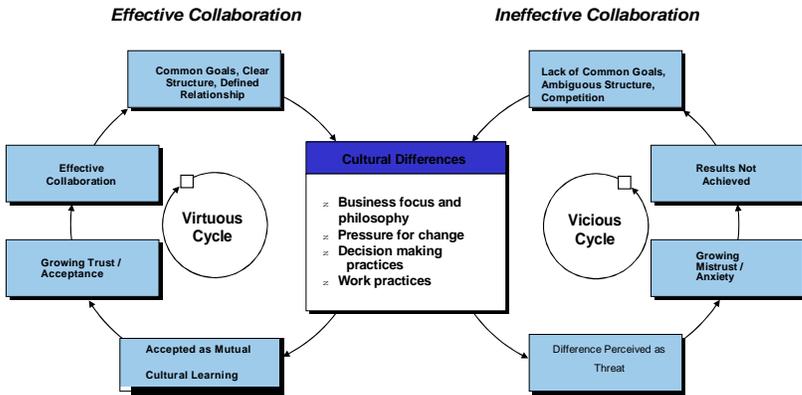
- Prepare people for a period of high-level activity
- Rally people with a vision of a better organization
- Operate in a way that says, "We're all in this together"
- Acknowledge people's uncertainty and concerns
- Communicate about what is happening — plans and actions — visit and be visible
- Tell all you can, and tell the truth
- Involve people in managing the transition
- Live the Amgen Values — show respect to them, care and fairness
- Follow the guidelines and recommendations in the Ambassador program, Leader Briefings, other available resources
- Create a thoughtful Change Management Plan

Source: Amgen

<sup>15</sup> 150 Deals, Business Week, 1995

<sup>16</sup> Tower Perrin and SHRM, 2000, and Forbes Survey of 500 CFO's

**Exhibit 5: Cultural Differences Can Amplify Positive or Negative Working Relationships**

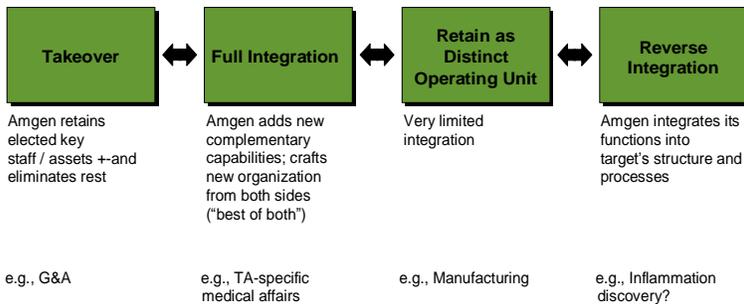


Source: Amgen

## Type of Merger

One of the key questions that Amgen's senior management had to address first was to determine what type of merger was the Amgen-Immunex acquisition would be and how it would define the company's

**Exhibit 6: The Integration Process Will Need to Consider Several Approaches**



Overall integration may be characterized by a dominant style but still allow a mix of approaches by function. It is critical to clearly choose and communicate the approach and set expectations.

good, the bad, the ugly. It was a combination of all of this stuff that I used to educate myself, my small team and then my larger team. That's what we did to prepare ourselves.

One of the previous acquisitions that taught Foraker was Amgen's acquisition of Boulder, Colorado-based Synergen in 1994 for \$250 million.

approach to integration. Typically, there were four types of acquisitions: Takeover, full integration, keeping the acquired company as a distinct operating unit, and reverse integration (see Exhibit 6). In a takeover, the acquiring company retains selected staff and assets of the acquired company and then eliminate the rest. In a full integration, the acquiring company adds new complementary capabilities, such as a new product or resources, from the acquired company (this is also called the "best of both" approach). Keeping the company as a distinct operating unit would involve limited integration as the acquired company would wholly operate as a fully-owned subsidiary of the acquiring corporate parent. And reverse integration would allow the acquiring company to integrate its functions into the acquired companies structure and process.



## Key Metrics to Measure Success

Early in the planning process, the Integration Steering Committee agreed upon specific metrics proposed to measure the

Exhibit 7

Key metrics to measure the success of the integration of Immunex with Amgen

Metric Categories	Measurements
<b>Business Goals</b>	<ul style="list-style-type: none"> <li>z Meet product sales goals               <ul style="list-style-type: none"> <li>-Aranesp® 2002, 2003</li> <li>-Kineret® 2002, 2003</li> <li>® 2002, 2003Enbrel</li> <li>-Neulasta™ 2002, 2003</li> </ul> </li> <li>z Achieve Alignment Initiative Goals</li> </ul>
<b>Synergies</b>	<ul style="list-style-type: none"> <li>z Beat street guidance</li> </ul>
<b>Staff Retention</b>	<ul style="list-style-type: none"> <li>z Retain at least 80% of employees that receive non-transition job offers in Seattle — at first anniversary</li> <li>z Retain at least 50% of employees that receive job offers outside Seattle — at first anniversary</li> </ul>
<b>Enbrel</b>	<ul style="list-style-type: none"> <li>z FDA approval of Rhode Island facility Q1 2003</li> </ul>
<b>Helix</b>	<ul style="list-style-type: none"> <li>z Scale back and complete construction. Achieve over \$200MM in cost savings</li> </ul>

Source: Amgen

success of the integration with Immunex. The metrics were in line with the four objectives of the integration of Amgen with Immunex discussed earlier. They focused on ensuring

that individual-product sales goals were achieved, synergies were realized, target staff retention levels were met, that expansion of the Rhode Island manufacturing plant was approved by the FDA, and that construction of the Helix facility (which would have been the corporate headquarters for Immunex had it remained an independent company) in Seattle would be scaled back (see Exhibit 7).

The metrics were extremely useful as goals and guidelines for each of the functional teams, which allowed all participants to work toward a consistent end-game.



## The Enbrel Franchise

Central to the success of the acquisition of Immunex by Amgen was its Enbrel franchise — which some believed would ultimately become a \$3 billion product. The Enbrel franchise would allow Amgen to achieve a first-to-market product in the inflammation category that had more upside potential than Amgen’s Kineret, which was just launched months earlier in November 2001.

## Operating Capabilities of Amgen

Obtaining approval of manufacturing Enbrel at the Rhode Island plant demonstrated the added advantage, scale and scope that Immunex would have in its merger with Amgen. Fabrizio Bonanni, Amgen’s senior vice president of quality and compliance, said in August 2002:

This is basically a new plant, with a new process, with new staff and now more new staff with Amgen coming in. So you are dealing with the normal difficulties of a plant startup — like finding out that this pipe leaks or that wall has a problem — the normal aggravations of starting a new facility; training new people; plus discovering the intricacies of a new, first generation process.

Adding to the complexity is that a contract manufacturer in North Carolina is being used for the fill and finish function [of Enbrel]. The contractor has to receive FDA approval as well and that process is not totally under Amgen’s control. There are a lot of moving parts [in the production of Enbrel]. There are many things happening at a number of different locations.

Amgen is very experienced in manufacturing technology, dealing with the FDA, getting manufacturing facilities approved and managing our facilities in compliance. We are taking our expertise and driving this plant to get ready for licensure<sup>19</sup>.

Retterson also believed that Amgen’s core values developed in the mid-1990’s — doing what is right for the patient — also served as a rallying cry for personnel at the Rhode Island facility, which had gone through three ownership changes — Wyeth, Immunex, and Amgen — in 12 months. Retterson recalled:

One of the key things that I told people was that I wanted to make it an Amgen site in six months, but I think it did take about a year . . . I would speak about what we’re going to do for the patients and say that one of Amgen’s core value is all around the patient . . . what we’re going to do is the right thing and everyday that we don’t increase the manufacturing of Enbrel, someone is suffering . . . While we’re getting out there for the patient, that the message is Amgen —we’re no longer Immunex and Wyeth but Amgen.



## Epilogue

Months later, in October 2003, Foraker reviewed a report that he had prepared for the July 2002 Amgen board of directors' meeting about the results of Amgen's integration with Immunex. In addition, securing approval from the FDA for the Rhode Island plant to manufacture Amgen's products, the integration team had achieved many of its objectives, including retaining many of the key employees from Immunex, maintaining the business focus for Enbrel and the other Amgen products, such as Aranesp, undergoing launch, delivering on almost all of the milestones.

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<sup>17</sup> Unpublished case study by Amgen: "All Systems Go: An Inside Look at the Team behind the World's Largest Biotech Merger (August 15, 2002).