



# Filling the Drug Gap

“We’re basically the same as a company like Pfizer or Merck, only smaller,” explains Carl Whatley, CEO and chairman of Montgomery’s ProEthic Pharmaceuticals

BY FRANCES PACE PUTMAN

For 19 years, Carl Whatley “carried a bag” for a major, national pharmaceutical company. Calling on doctors and hospitals in Alabama, he touted the benefits of the company’s drug products and racked up an impressive list of sales awards.

Along the way, however, he noticed a gap in the market. Because developing, testing and launching new com-

pounds can require a multi-million dollar investment, most large pharmaceutical companies weren’t interested in products that weren’t blockbusters — those with at least a half billion dollar potential.

“That can leave a lot of unmet needs,” says Whatley, now chairman and chief executive officer of ProEthic Pharmaceuticals, Inc., the Montgomery

based specialty pharmaceutical company he founded in 2001. “We’re basically the same as a company like Pfizer or Merck, only smaller.”

ProEthic acquires, develops and markets prescription products, particularly branded prescription allergy, cough and cold and pain medications, as well as nutritional supplements. Right now, the company markets 15



branded and seven generic products, including Durabac, an oral pain medication, DuraFlu, a formula to relieve flu symptoms and Udamin and Udamin SP, supplements for men's prostate health. Many of the products are less expensive alternatives to better-known name brands and are marketed primarily to general and family practitioners and specialty physicians

in rural and suburban markets in 30 different states.

In 2004, the company had sales of \$16.8 million and, according to Whatley, is on track for 2005 sales of \$25 million to \$30 million. Earlier this year, Entrepreneur magazine named ProEthic to its "Hot 100" list, placing it at 26th among the nation's fastest-growing companies.

Sales for the company have far exceeded what even Whatley considered when he wrote the company's business plan in 2001. At that time, he estimated sales of \$3.3 million in 2004 and \$8.1 million in 2005.

"We've had nice, dramatic increases each year," he notes.

After leaving his pharmaceutical sales job in 2001, Whatley teamed

with Jim Harwick, who now serves as co-president of Midlothian Laboratories, a wholly owned subsidiary of ProEthic and Ben Stakely, now the company's president. Together, they secured about \$4 million in equity financing from about 225 investors, mainly in the Montgomery area.

That the company was able to raise the capital locally is a testament to Alabama's growing biotech industry. While many successful companies are clustered around medical centers in Birmingham and Huntsville, the trend is now stretching south to include Montgomery.

“I'm most impressed with what they have been able to do,” says Mike Alder, executive director of the Biotechnology Association of Alabama. “They have really moved along well.”

Recently, the company broke ground on its new, 43,000 square-foot headquarters, the first structure to be built in the new Montgomery East Industrial Park, just off Interstate 85 in Alabama's capitol city. The industrial park is a project of the Montgomery County Commission in an effort to further support the needs of the business community.

ProEthic's new facility will include space for all departments, including distribution, sales, marketing and regulatory and for all the company's 30 employees. Much of the space will be used to warehouse products. Whatley says the new facility can be expanded to up to 130,000 square feet in the future.

“This milestone in our growth is further tribute to

the support we have received from the people of Montgomery,” he says, including the county commission.

And the commission is excited to have a company like ProEthic coming into the industrial park.

“As a commission, we are honored that [ProEthic] will be the first of many quality corporations in our Montgomery Industrial Park,” says Todd Strange, chairman of the Montgomery County Commission. “This home-grown organization is a shining example of the economic opportunities afforded to our citizens in Montgomery County.”

ProEthic has found success, not by developing new drugs, but by

improving the delivery of those already on the market. The company has developed products internally and acquired products in the late stages of development from third-party manufacturers, some of whom are looking for ways to enter the U.S. pharmaceutical market. ProEthic has a close partnership with Applied Pharma Research, a Swiss-based drug company.

“We go out and find an existing compound and improve the way it is delivered,” says Whatley. “There is not much time spent in the lab.”

The company's first success came with a topical patch containing Ketoprofen, first marketed in the 1980s for arthritis and pain. Originally, Ketoprofen was taken orally, like other non-steroidal anti-inflammatory drugs (NSAIDs), including aspirin and ibuprofen.

The once-daily transdermal patch, however, delivered Ketoprofen locally for treatment of soft-tissue injuries, like ankle sprains.

“If you put it on the knee, it will work on the knee, but not the elbow,” notes Whatley.

By delivering the medication directly to the site of the injury, rather than being taken orally



The ProEthic product line



ProEthic executives include CEO and Chairman Carl Whatley (seated) and (standing from left) Ben Stakely, president; Jim Harwick, senior vice president business and corporate development.

and absorbed into the bloodstream through the stomach, the patch was less likely to damage the lining of the stomach, which sometimes occurs with long-term use of NSAIDs.

Before it came to market, however, ProEthic entered into a \$24 million end-licensing agreement with Endo Pharmaceuticals, Inc. to develop and commercialize the patch.

"It was a lot of money — a tremendous influx of capital," says Whatley. And, it was the deal that alerted the industry that the start-up Alabama company was for real.

the cost of doing business in the state of Alabama is very reasonable."

In fact, he estimates the actual annual cost of operating a business in Alabama is probably about half what it is in a state like New Jersey.

"And as far as quality of life, we have them beat, hands down," he says with a smile.

Alder is particularly optimistic about what the success of ProEthic means to Alabama.

"It sends a message to investors, that a pharmaceutical company can be successful in the state," he says.

That next level includes the introduction of two new proprietary drugs, which Whatley believes, will dramatically increase the company's public profile. The first, an acute pain product, could potentially become a first-line therapy in the treatment of pain, a market that generates more than 1.4 million prescriptions each month.

The other, a powdered formula for the treatment of migraine headaches, could compete with products like Imitrex, Zomig and Maxalt, which are part of a \$2.1 billion migraine market.

"Both of these products have the potential for sales in excess of \$100 million," he says, noting that they are currently in development and should be available in 2007.

Whatley expects that once the new products are established in the market, the company will begin to phase out its existing "starter" product mix. In three to four years, he believes that 90 percent of the company's focus will be on these two new drugs.

Once they are introduced, he expects ProEthic will double its workforce, adding more high-paying jobs to the Montgomery economy. In fact, he says currently, the average salary for ProEthic employees is between \$75,000 and \$100,000 per year.

"Even when you look at our clerical people—no one earns less than \$30,000," he says.

Whatley has been pleased with the quality of employees he has been able to find in the Montgomery area. It was a concern at first, since there aren't other pharmaceutical companies around.

"We've had no problem getting good people," he says. "We get local people and train them. There is a great talent pool here in terms of potential." ■



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"Most of the people we deal with are in the Northeast," Whatley says, noting he and his staff take a little good-natured ribbing about their Southern accents and culture. "But

"ProEthic is a fine example. They have a strategy that has skyrocketed them to success, very rapidly. And, they are taking an intelligent approach in moving to the next level."