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Gavin's Growth Formula

Allergan Founder Lured Talent, Listened for Opportunities to Build Local Behemoth

Who in the world is Irv Leopold? And what does he have to do with this week's special report anchored by the Business Journal's annual list of the biggest publicly traded companies based in Orange County?



Creative campus: cocktail hours, ballfields date back to 1970s, decades ahead of current trend

The connection requires a few jumps, just as building a big public company does. So here we go: Leopold is a late legend in the world of ophthalmology. He rose to unprecedented heights of respect in medical circles in the 1960s.

He also was a tennis buff.

And he was a key figure in the growth of what became the biggest publicly traded company—measured by market capitalization—in Orange County.

The common thread to this tale is Gavin Herbert, a robust octogenarian who founded drugmaker Allergan Inc. over a drugstore in Los Angeles, and moved the company to Irvine in the mid-1960s—back when what's now John Wayne Airport was a windsock operation surrounded by farmland and duck hunters.

Herbert and Allergan showed up just as another building block of OC's future as a major commercial and corporate hub— Irvine Company— was putting some momentum into its masterplanned vision for the area.

The two companies struck a deal in 1967 that gave Allergan a campus that would bear fruit for both the drugmaker and the real estate developer in the decades to come.

"We acquired it from the Irvine Co. on a lease option—24 acres for \$1 million," Herbert recently recalled. "They sell 'em for about \$3 million an acre now." But that was then. "At the time, the Irvine Co. had created the master plan, and they were making really good deals for companies that would create jobs. They actually made some unsuccessful deals— with Lockheed, Ford— that never really materialized."

Allergan had to materialize, under the terms of the deal.

"In order to get the 24 acres, we had to build it out," said Herbert, whose operation has provided tens of thousands of individuals with well-paid jobs over the decades.

The University of California-Irvine was brand-new, too—Herbert spent more than one afternoon walking grounds that would become the campus with its first chancellor, Dan Aldrich, who "used to be a neighbor in Back Bay."

"Allergan started its Irvine campus at about the same time as UCI," Herbert said. "I can remember walking the campus before any buildings were started there—with Dan, listening to his vision."

The school now is home to a world-class eye institute that bears Herbert's name.

Allergan had some development of its own to do before that happened, though.

"When we went public in 1970, we used most of the money to create a five-story building—there weren't any besides one- or twostory buildings around," Herbert said.

"We were doing \$10 million [in annual sales] and the analyst that came thought we were absolutely crazy—which we probably were."

Home Turf

Crazy like Southern California—a home turf that provided Herbert with a recruiting advantage as he set out to fill that five-story building and get the rest of the campus built.

"We recruited talent mostly from the East Coast, mostly from the Philadelphia area," Herbert said. "I'd go there in the wintertime for medical meetings. I recruited seven or eight guys from Merck and SmithKline that were younger emerging talents. At that time, you'd bring them out here from Philadelphia to great weather, and the site became a very good recruiting tool."

Which brings this tale back to Leopold, who "was the top guy in the world for ocular pharmacology" by the 1960s, according to Herbert.

"There were four or five committees on ophthalmic drugs in the country ... and Irv was chairman of each one," he said.

Leopold's posts included the chairs of the American Board of Ophthalmology; the ophthalmology panel of the United States Pharmacopeia, which sets standards for drugs; and the Association for Research in Ophthalmology.

"In the early 1970s he was at Mt. Sinai [in New York] and he was going to take a sabbatical," Herbert said. "So I lured him out for a six-month sabbatical, and I put his office in the corner over a tennis court because he loved to play tennis."

There was more to Herbert's recruiting game than tennis.

"Ultimately I convinced him that he could do a lot more good for world vision at Allergan than as the head of a prestigious eye institute in New York," he said. "We shocked a lot of people, because at that time people like that didn't associate with pharmaceutical companies. It's one of the things, I think, that changed our reputation."

Leopold and kept a hand in the world of academia as a professor and chairman of the ophthalmology department at UCI.

"He was instrumental in getting the eye department started at UCI," Herbert said. "Because he had been involved in teaching, we decided [it would be good to have] some parttime involvement at UCI. We actually talked about creating an eye institute way back then— it took 40 years."

The tennis court was only part of a company culture that focused on the creative campus way before it was considered cool in Silicon Valley. Allergan's leafy spread also got a baseball and soccer fields, along with a gym. The sporting camaraderie was complemented by a social prod in the form of a regular cocktail hour, where colleagues would talk shop after wrapping up on the job for the day.

The idea was to foster the talk that would spark the ideas to keep Allergan's pipeline of innovation full.

Breakthrough Products

Talk isn't even half of Herbert's formula, though.

He's also famous for listening—and teaching others to keep their ears tuned for opportunities.

"I tried to spend about 10% of my time out with physicians," Herbert said. "One week I was asking the doctors what the most common presenting complaint of the patients [was]— but in the patients' words, not the medical terminology. The medical terminology for dry eye is keratoconjunctivitis sicca. But the people were saying 'itchy, scratchy eyes.' And for some strange reason, the regular market research wasn't picking that up, and that was something like 17% of complaints."

Allergan responded with eye drops that pioneered what became known as the “dry eye” market.

Careful listening also led to the company’s best-known and biggest single revenue producer.

“Listening is really critical. Going back to Botox, the majority of new indications have come from physicians who have tried it on their own and brought it forth,” Herbert said. “The beginning of [Botox] for me was, I got a call from a guy named Alan Scott, an ophthalmologist from San Francisco, and I’d known him since he was a resident. He was working at a research institute there, and he told me he had this botulism drug that he had been trying on droopy eyelids, and he wanted to know if I’d be interested. I did the rough math—I figured it couldn’t be worth more than around a \$5-million-a-year-drug, and I started to say no. But then I thought, well, our strategy is to surround the ophthalmologist with all the different products they need ... and we came up, ultimately, with a licensing deal, but without any knowledge there was anything beyond droopy eyelids.” Then came a surprise. “We found out that [Scott] had been sending the material to a dozen or so other physicians for juvenile cerebral palsy and Torticollis. Initially he was using what they call a physician’s indication, which is a mechanism that allows physicians to do testing with dramatically lesser controls. Usually they’re pretty loosey-goosey. When I found out that he was working with physicians on an indication for those two things, I about had a heart attack—because here’s the world’s most potent drug being used by a dozen or so physicians. But it turns out every one of them was top-notch in their field, supported by National Institutes of Health grants. So it went on from there.”

Then there was the dermatologist in Vancouver who was using Botox to smooth patients’ wrinkles.

“People were commenting they weren’t getting migraines as much as they used to,” Herbert said, pointing to the start of what has become one of the larger but lesser-known uses of Botox—one of about 20 overall.

The culture of listening to customers and talking with colleagues produced last year’s blockbuster sale of Allergan to Actavis PLC, which paid \$72.5 billion and took on the Allergan name.

Success Breeds Success

The Allergan brand also lives in the form of the more than 30 people who came through the Irvine campus and went on to lead other enterprises as chief executives, a talent tree that’s populated corner offices with the likes of Jim Mazzo, executive chairman and chief executive of Irvine-based eye-device maker Acufocus; Tom Bender, who led contact lens maker Cooper Companies Inc. in Lake Forest; and Tom Burns, chief executive of glaucoma device maker Glaukos Corp. in Laguna Hills, among others.

Herbert, meanwhile, has cultivated a fascinating life beyond Allergan—everything from being a member of President Richard Nixon’s kitchen cabinet to enthusiast owner of Roger’s Gardens in Newport Beach.

And, by the way, Herbert has another company that’s getting along nicely, thanks to a bit of listening that led it from a maker of products to keep plants from getting over-watered to a specialist in cleaning up water contamination at sites such as gas stations.

It’s called Regenesys, and it’s based in San Clemente.

Anyone concerned about the recent sales of Allergan and other big public companies to buyers outside OC shouldn’t expect to find a potential replacement in Regenesys.

“When I created Regenesys, I put together a board anticipating we’d go public,” said Herbert, who now leans against the idea.

“I think today it’s such a different world, so much more costly,” he said. “I think maybe when we get to be \$100 million or more [in annual revenue] we’ll rethink it. But for now, it’s family controlled. It’s kind of nice not to have to worry about bad quarters—one of which we just had. Regenesys had a terrible quarter. The stock would have gone down 50% if we’d been public.”



Just don’t expect that to be the last you hear from Herbert.

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