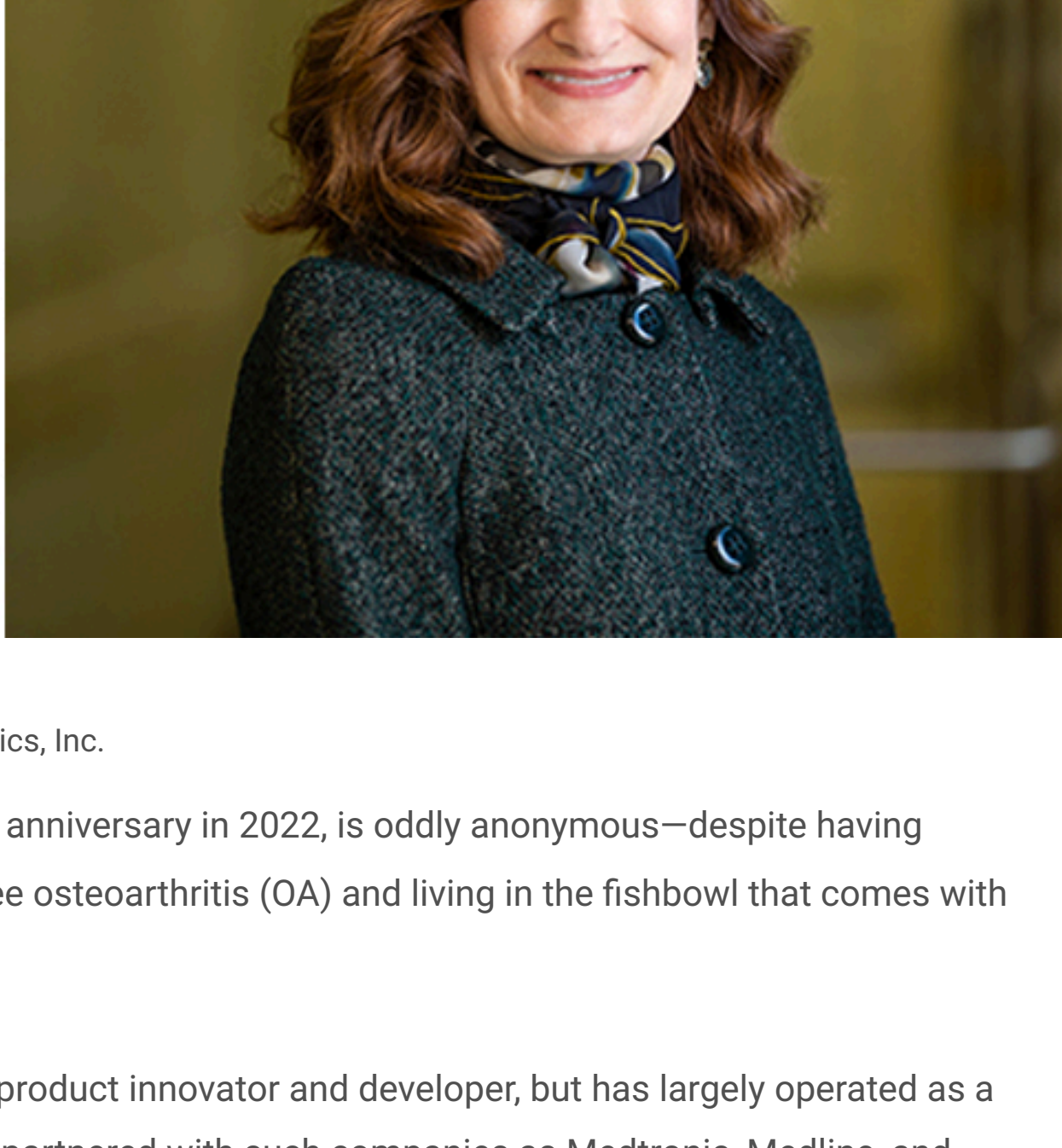


## COMPANY NEWS

# THE IMPROBABLE TRANSFORMATION OF ANIKA THERAPEUTICS

ROBIN YOUNG • MON, DECEMBER 6TH, 2021



Cheryl Blanchard, Ph.D., CEO / Source: Anika Therapeutics, Inc.

Anika Therapeutics, Inc., which celebrates its 30th anniversary in 2022, is oddly anonymous—despite having invented and pioneered an iconic treatment for knee osteoarthritis (OA) and living in the fishbowl that comes with being a NASDAQ traded company.

For more than a quarter century, Anika has been a product innovator and developer, but has largely operated as a behind the scenes contract manufacturer that had partnered with such companies as Medtronic, Medline, and Johnson & Johnson to distribute in America a range of products including the largest selling HA viscosupplementation products, Orthovisc® and Monovisc®.

From Wall Street's perspective, and perhaps even among some of its stakeholders, Anika Therapeutics was an improbable company to execute an all-encompassing corporate transformation—a true business model pivot.

But pivoting is what Anika is doing...and fast. Much of the credit goes to a team led by the former Chief Scientific Officer and head of the Biologics business at Zimmer (now Zimmer Biomet), former CEO of a venture backed drug delivery company, Ph.D. in engineering and classically trained flautist—Cheryl R. Blanchard, Ph.D.

In just over 18 months, Blanchard and her team have:

- Closed on and integrated two significant and strategic acquisitions
- Increased Anika's addressable market from \$1 billion to \$8 billion
- Redefined the company as a Joint Preservation company with a full commercial team including Sales, Marketing, Medical Education, etc.
- Kicked sales growth forecasts into high gear by adding two of the fastest growing orthopedic sectors to the portfolio: sports medicine and extremities.

### A Joint Preservation (Not Replacement) Company

Making the, perhaps, subtle shift from pain management to joint preservation is prescient. It harkens back to Balazs' foundational arguments regarding HA (hyaluronic acid) viscosupplementation.

In 1993, Endre Alexander Balazs, winner of the Helen Keller Prize for vision research and director of ophthalmic research at Columbia Presbyterian Medical Center in New York City, wrote a seminal paper about viscosupplementation where he suggested that viscosupplementation could interrupt OA deterioration of the knee and give that joint a fighting chance to recover on its own, using the inherent biological ability to recover from injury.

As Balazs wrote more than a quarter century ago, "Viscosupplementation is a new medical concept that has as its therapeutic goal the restoration of rheological homeostasis in pathological structures such as osteoarthritic joints. When the normal viscoelasticity of a solid tissue compartment or the elastoviscosity of a liquid tissue compartment is decreased under pathological conditions, normal function and regenerative processes are impaired. By introducing viscosupplementary devices, the normal rheological state of such compartments is restored or augmented."<sup>[1]</sup>

### Anika From 1992-2018

Initially, Anika was the developer and strategic supplier of JNJ's HA based ophthalmic products AMVISC® and AMVISC® PLUS. In 1995, The company expanded into HA for horses (HYVISC®). In 1996, Anika started selling a human HA viscosupplementation (ORTHOVISC®) in Europe. The FDA approved ORTHOVISC® for U.S. sales in 2004 (which was initially marketed by JNJ's Ortho Biotech subsidiary and now by Mitek).

Anika was a NASDAQ traded company by then and with \$16 million in sales, \$174,000 in earnings, Anika's 309 shareholders of record in 2000 were pricing the company at about \$43 million. Ten years later, with sales at \$56 million and earnings at \$4.3 million, market cap was \$80 million which represented slower growth than either sales or earnings and the number of shareholders had dropped to 232.

Last year, 2020, Cheryl Blanchard's first as CEO, Anika's sales had more than doubled from 2010 levels to \$130 million, the number of shareholders of record had dropped further to 115 but market value was now sitting at record levels—up 10x in 10 years to \$640 million.

Five years ago, roughly 2015, Anika's then CEO, Charles Sherwood, Ph.D., had begun the process of re-defining Anika's vision and business model. His first move was to develop a next generation viscosupplementation product, CINGAL®, which Anika could sell by itself, using a direct sales force.

Then, in 2017, Anika decided to manufacture all HA products at its Bedford, Massachusetts headquarters. That \$23 million decision was intended to accelerate R&D product development and make manufacturing more efficient.

The next step was to bring in fresh, broadly experienced management to implement the emerging plan. In 2017, CEO Charles Sherwood, a 20-year Anika veteran, retired, paving the way for Joseph Darling—whose two decades of executive leadership included stints at Abbott Laboratories, Baxter Healthcare, Smith & Nephew, Wyeth-Ayerst and ConMed's Linvate Corporation and seemed ideally suited for executing Anika's pivot.

Darling joined Anika in July 2017. In late January 2020, two months before the pandemic set in, Joseph Darling died unexpectedly.

### Enter Cheryl Blanchard

After Blanchard left Zimmer in 2012 (after a 12 year career at "Big Blue"), she was running a drug delivery company called Microchips Biotech, which was primarily working in women's health and metabolic diseases. While there, Joe Darling reached out and asked her to join Anika's board, which she did in 2018. In 2019, Blanchard sold Microchips Biotech to Daré Biosciences, a women's health company.

"When Joe passed it was very unexpected," recalls Blanchard. "I was actually in a process for my next CEO role when I was asked to step in on an interim basis to oversee day-to-day operations while the search for Joe's successor was conducted. It was personally difficult for me because Joe was a friend and colleague."

For Blanchard, the role of CEO at Anika was clearly unexpected, but after her time on the board, and shortly after taking over the role of Interim CEO, she realized it was "a dream job." After a lot of thinking and receiving encouragement from Darling's widow, she threw her hat in the ring for the permanent CEO position. Anika's board went through a rigorous vetting process, including Blanchard and candidates from outside the company, but ultimately chose Blanchard. "I think I was really fortunate that I had CEO experience, and had the chops from a technical, clinical and public company business perspective."

### And Blanchard Went to Work

Since Anika's plan was basically baked in before she became CEO (and since Blanchard had been working on it as a member of the board for two years), she was able to move quickly. Immediately she finalized two strategic acquisitions:

- Parcus Medical, LLC, a sports medicine implant and instrumentation and soft tissue repair company, and
- ArthroSurface Incorporated, a company providing less invasive, bone preserving partial and total joint replacement solutions focused on extremities.

In her first year as CEO, she led Anika to:

- Integrate over 30 U.S. direct sales representatives to sell Anika's entire Joint Preservation and Restoration family of products.
- Launch seven Joint Preservation and Restoration surgical devices and instruments. The new products enable procedures ranging from rotator cuff repair to arthroscopic knee repairs and treating arthritis damage in the hand and wrist.
- Enroll the first patients in the U.S. Cingal Pilot Study

For 2021, Wall Street analysts are forecasting that Anika Therapeutics will report around \$150 million in sales and about \$3.75 million in earnings. However, the income statement is NOT the most interesting part of Anika's financial story.

Between 2014 and 2019, Anika's annual cash balances routinely *exceeded* reported annual sales. In 2019, for example, Anika's reported product sales were \$114.5 million but cash on the books had accumulated to more than \$180 million.

"Anika is a great company, with great fundamentals and great technology based on hyaluronic acid," explains Blanchard. "Before this transformation, the biggest chunk of our revenues was with Orthovisc and Monovisc. Over 40% EBITDA margins. Very profitable. Very steady. Though, not a growth story."

Anika did have two prospective growth products in development—Cingal, a truly innovative product (HA plus steroid triamcinolone hexacetonide), and Hyalofast®, a single stage, off the shelf, cartilage repair product. Both are sold in over 30 countries outside the U.S., and neither is yet in the largest market of all—the United States.

In short, not a public company growth story—maybe a dividend story for widows and orphans—but, really, a company not deploying its cash in ways that would both accelerate sales growth and expand already strong profit margins.

### Not the Traditional CEO Pathway

So, how did Cheryl Blanchard get to this company, this market basket of technologies, at this particular point in time?

Adding to the overall improbability of this story, originally, Cheryl Blanchard was going to be a musician.

But curiosity got in the way.

Growing up around Syracuse, New York, she "always thought I was going to be a musician. I was a classical flautist." But she wanted the broadest education she could find and chose to attend one of the most unusual, cross-functional curricula in America. "I attended The New York State College of Ceramic Art and Engineering at Alfred University. I was able to get a great Engineering and Liberal Arts education."

Blanchard also studied abroad, spending almost a year at L'École Polytechnique Fédérale de Lausanne, in Switzerland. "I did a semester of Engineering school in French, which was terrifying and fun all at the same time."

From French engineering, Blanchard moseyed on down to San Antonio, Texas, where she joined the Southwest Research Institute and worked on various Department of Defense DARPA projects—while also earning a masters and Ph.D. at the University of Texas in Materials Science and Engineering.

She would spend about 15 years at Southwest Research Institute ultimately becoming manager of the biomaterials and bioengineering group. "We did a lot of work figuring out what polyethylene wear was doing in terms of osteolysis and revision rates for total hips and total knees. I also worked on implant associated biofilm formation and how to mitigate them, and tissue engineering."

"I also audited medical school while I was a professor at the Health Science Center, and I was able to really get some significant clinical exposure that I don't think necessarily a lot of people get access to. Sulzer Medica was a client, as was Zimmer, Smith & Nephew, Wright Medical, and JNJ. All the orthopedic companies were my clients in that job."

Not surprisingly, one of her clients decided to make Blanchard an offer she couldn't refuse. That client was Zimmer. The initial job was Director of Research, but eventually she became Zimmer's Chief Scientific Officer.

"I was really excited to join Zimmer. You know, I'd seen enough about what the companies did that I knew at some point, I wanted to be at a fully integrated company that was doing everything from ideation and research and development, all the way through sales and marketing. I was hungry to learn how those businesses ran and to figure out how I could continue to contribute in a more meaningful way, in a more strategic way."

"Right at the time I joined Zimmer it was being spun out of Bristol Myers Squibb. We became an independent public company with a lot of visibility. Ray Elliot was CEO and so I went into a very, very fast paced, highly accountable, get your stuff done, go get more stuff done environment. I loved it. I thrived in that environment. I finally felt like I was where I was supposed to be."

### Where Is Anika Heading Under Blanchard's Leadership?

The beauty of Anika's new focus on Joint Preservation is that it retains the legacy strengths (to say nothing of the cash flow) of the HA business but allows the company to pivot to a range of other "joint preservation" technologies.

"We will stay focused on the legacy cash generative part of the business, but now pivot to a growth story that is now funded by both the cash on the balance sheet and the legacy business," explains Blanchard. "Our focus is on the early intervention continuum of care in orthopedics. Acquiring Parcus Medical and ArthroSurface allowed us to have four pillars in that joint preservation space. Parcus brought soft tissue repair sports medicine products, Anika brought the joint pain management and regenerative solutions, including Tactoset®, our injectable bone substitute."

"We just got an additional indication for Tactoset to use as an adjunct to fixation with suture anchors, which fits very nicely into the sports medicine business. Tactoset also treats insufficiency fractures early and minimally invasively."

"ArthroSurface is the fourth pillar and brought to us bone preserving joint solutions. Minimally invasive motion preserving implants. We will not be doing total hip or knee replacements. Our focus is joint preservation in large joints and upper and lower extremities. But you know, our products get used in all joints."

Blanchard has also been using her many industry relationships to bring in a stellar team with experience in the industry and in innovating, growing and transforming companies. "Our Vice President of R&D is Steve Ek, who was the founder of ArthroSurface. Steve started out in sports medicine at Smith & Nephew. He's got a great background and a track record of innovation in this space so he's our Head of R&D."

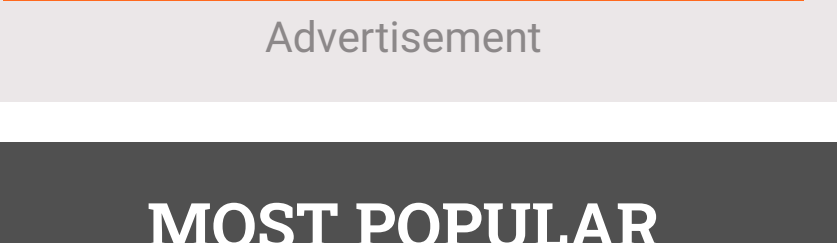
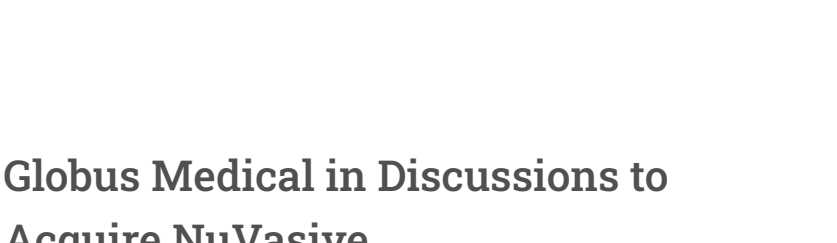
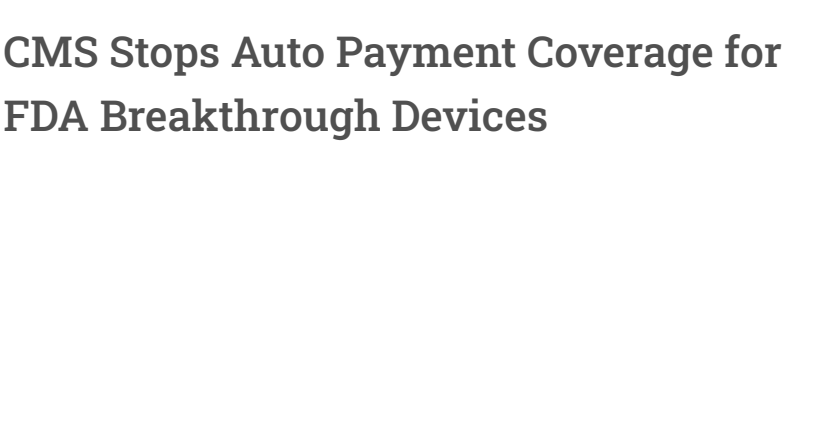
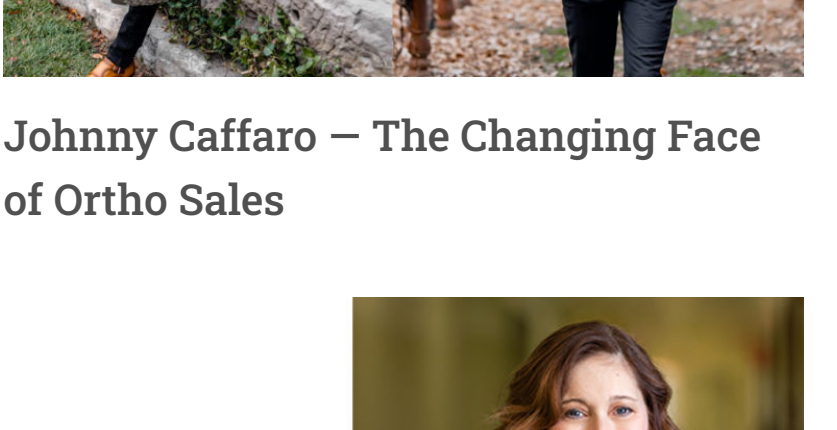
"Over the past 18 months, we also brought in Kevin Stone who had been running sports medicine and was a big innovator at Biomet then Zimmer Biomet for many years. Ben Joseph, who ran the extremities business at Biomet and Zimmer Biomet, is our head of commercial. We hired a couple of great corporate folks who had been at Insulet, a high-growth diabetes-focused drug delivery company that went through its own business transformation and has had great value appreciation on Wall Street over the last several years. Both our CFO, Mike Levitz, and General Counsel, David Collieran, come from Insulet. We also just brought in Anne Nunes from Smith & Nephew as our head of operations."

One final tidbit about Anika's CEO, she is a member of the National Academy of Engineering, which is unusual.

Looking ahead, at this pace, Blanchard and the Anika team will not likely stay under the radar much longer.



## FEATURED NEWS



<sup>[1]</sup> Balazs EA, Denlinger J.L. Viscosupplementation: a new concept in the treatment of osteoarthritis. J Rheumatol Suppl. 1993 Aug;39:3-9. PMID: 8410881.