BioPharma Credit

Invests in Epizyme and Akebia

Investment companies
Debt: direct lending

BioPharma Credit (BPCR) has announced it has entered (alongside the BioPharma V fund) two five-year senior secured loan agreements with a total commitment of US$85m over the next 12 months (of which US$52.5m will be drawn initially). The terms of both loans are broadly in line with previous deals with a high single-digit floating interest rate, a 2% upfront fee and certain make-whole/prepayment fees. We estimate that BPCR still has at least US$344m in uncommitted cash (after excluding the recently declared dividend of US$0.0175 per share), which it aims to deploy before the end of the year.

Month ending	Share price (%)	NAV (%)	NASDAQ Biotechnology (%)	FTSE All-Share (%)	Credit Suisse HY (%)	S&P Euro Lev Loan (%)
31/05/19	0.5	0.4	(6.0)	(6.2)	(2.8)	(0.5)
30/06/19	1.4	0.4	9.3	4.7	1.2	2.3
31/07/19	(2.4)	0.0	(3.1)	(1.9)	3.2	(2.0)
31/08/19	0.2	0.5	(2.6)	(4.1)	0.8	(0.8)
30/09/19	(0.5)	0.5	(3.2)	4.2	1.5	(0.3)

Source: Refinitiv. Note: All % on a total return basis in US$.

The Epizyme deal

BPCR and BioPharma V agreed to provide US$70m debt funding (of which half is attributable to BPCR) to the NASDAQ-listed late-stage biotech company Epizyme at an interest rate at LIBOR +7.75%. Its lead product, tazemetostat, is an oral EZH2 inhibitor for selected oncology indications, in particular, epithelioid sarcoma and follicular lymphoma. Following the positive outcome of the pre-NDA meeting announced on 30 October, Epizyme has filed for accelerated drug approval with the FDA and received a Priority Review designation, with an FDA target action date of 23 January 2020.

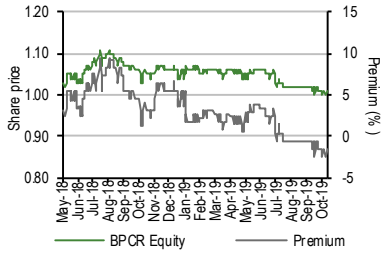
Although BPCR normally focuses on companies with approved drugs, it is important to note the loan will be over collateralised with cash before FDA approval, with Epizyme's cash and marketable securities at end-September 2019 at US$292.9m vs BPCR's and BioPharma V's initial investment at US$12.5m each. At the same time, the drawdown of the second (US$25m) and third (US$20m) tranches is subject to the FDA approval of tazemetostat for treating epithelioid sarcoma and follicular lymphoma, respectively. The loan facility is expandable by up to US$300m, subject to a mutual agreement between BPCR and Epizyme.

The transaction follows Epizyme's agreement earlier this month with Royalty Pharma (an affiliate of BPCR's investment manager), which provided US$100m of direct equity financing. Consequently, Epizyme's management expects the debt and equity funding to extend its cash runway into at least 2022. Royalty Pharma has also purchased an existing royalty on tazemetostat net sales outside of Japan owned by Eisai for US$330m. The current EvaluatePharma sales consensus for tazemetostat for 2020 and 2021 stands at US$35m and US$114m, respectively.

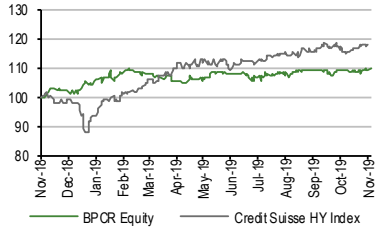
14 November 2019

Price	**US$1.02**
Market cap	**US$1,401m**
NAV	**US$1,400.6m**
NAV*	101.94c
Discount to NAV	(0.4)%
*As at end-September 2019.	
Yield	7.0%
Ordinary shares in issue	1,373.9m
Code	BPCR
Primary exchange	LSE
AIC sector	Debt-Direct lending
Benchmark	N/A

Share price/discount performance



One-year performance vs index



52-week high/low	107.0c	100.0c
NAV** high/low	104.0c	100.0c

Gearing

Gross*	0.0%
Net*	0.0%

*As at end-September 2019.

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Edison profile page

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The Akebia deal

BPCR and BioPharma V have committed up to US$100m in debt investment (with BPCR's contribution at US$50m) to Akebia, another NASDAQ-listed biotech player, at a rate at LIBOR +7.50%. The loan is secured against Auryxia, which is approved in the US for hyperphosphatemia (elevated phosphorus levels in blood serum) in adult patients with chronic kidney disease (CKD) on dialysis and iron deficiency anaemia in adult patients with CKD who are not on dialysis. The current EvaluatePharma consensus for Auryxia's sales attributable to Akebia in FY19 and FY20 is US$139m and US$209m, respectively. After increasing sequentially by 26% to US$29.1m in Q219, Auryxia Q319 sales grew slightly quarter on quarter to US$30m in Q319, bringing the year-to-date figure to US$82.2m. Akebia also has a late-stage product studied for anaemia caused by CKD in both dialysis and non-dialysis patients (vadadustat), with expected sales attributable to Akebia in FY21 and FY22 of US$79m and US$234m, respectively (according to EvaluatePharma consensus). Akebia's management has highlighted that the new debt funding extends the company's cash runway into 2021 (which is well past its expected data readouts for global Phase III studies for vadadustat). At end-September 2019, the company had US$145.6m in cash and marketable securities.

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