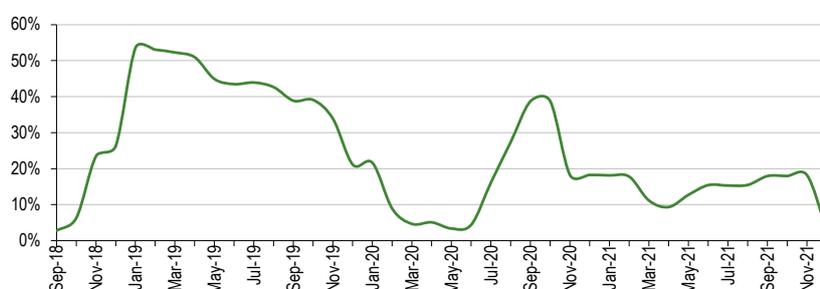


# BioPharma Credit

Fully invested after recent transactions

BioPharma Credit (BPCR) recently announced it has entered into new senior secured loan agreements for up to US\$212.5m in aggregate with two Nasdaq-listed biopharmaceutical companies: Evolus (focused on aesthetic medicine) and Coherus (which owns a commercial biosimilar business and plans to build an immunoncology franchise). BPCR also provided an additional tranche of US\$50m to Global Blood Therapeutics (GBT). We estimate that the tranches BPCR will fund until end-March 2022 as part of these deals will allow it to restore dividend cover based exclusively on the income generated by its investment portfolio.

## BPCR's cash as % of NAV



Source: BioPharma Credit. Note: \*Pro forma at end-November 2021 after accounting for the first Evolus tranche, the first and second Coherus tranches and the additional GBT tranche.

## Terms of new loans in line with existing portfolio

The Evolus loan (maturing in December 2027) and Coherus loan (maturing in January 2027) offer a floating rate coupon based on three-month Libor with a margin of 8.50% and 8.25%, respectively (subject to a 1.00% Libor floor in both cases), which is broadly in line with the average coupon rate on BPCR's current portfolio. BPCR will receive a one-time fee at 2.25% and 2.00% of the total loan amount, respectively, upon funding the first tranches. The additional tranche of the GBT loan was provided on similar terms to the original two tranches (see below).

## Dividend and ongoing charge fully covered

We estimate that the additional recurring coupon income as well as funding fees (which BPCR amortises over the lifetime of the loan investment) from the above transactions should increase its portfolio income to a level allowing it to fully cover its ongoing charges and targeted attractive dividend payout at US\$0.07 pa (c 7% yield) starting from end-March 2022. Given that the vast majority of its floating rate loan investments has a Libor floor (at 1% or 2%), we estimate that its portfolio should by then generate an average coupon rate of c 9%. Moreover, BPCR's cash position should decline below 5% of NAV, all else being equal. Its investment commitments beyond end March 2022 will include the additional Evolus and Coherus tranches of up to US\$25m and US\$50m, respectively (both of which may be drawn by end December 2022), which if necessary may be partially funded by BPCR's US\$50m credit facility (which remains undrawn).

Investment trusts  
Debt: Direct lending

10 January 2022

**Price** US\$0.98  
**Market cap** US\$1,340.9m  
**NAV\*** US\$1,359.3m

NAV per share\* US\$0.99

Premium/(discount) to NAV (1.0%)

\*At end-November 2021

Yield 7.4%

Shares in issue 1,373.9m

Code Ord/A-share BPCR

Primary exchange LSE

AIC sector Debt – Direct Lending

52-week high/low US\$1.03 US\$0.86

NAV high/low US\$1.01 US\$1.00

## Gearing

Net cash at end-November 2021 18%

## Fund objective

BioPharma Credit was incorporated in the UK in October 2016. It aims to generate predictable income for shareholders over the long term through a diversified portfolio of loans and other instruments, backed by royalties or other cash flows derived from sales of approved life sciences products. This includes senior secured notes, royalty debt instruments and priority royalty tranches.

## Bull points

- Strong and predictable income generation.
- Loans backed by approved and marketed products.
- High dividend yield (7% target).

## Bear points

- The life sciences sector is inherently risky and characterised by high R&D spending.
- Fixed-income characteristic limits investor upside potential close to coupon rate.
- Loans are often prepaid, creating a temporary cash drag (though normally at least partially offset by prepayment fees).

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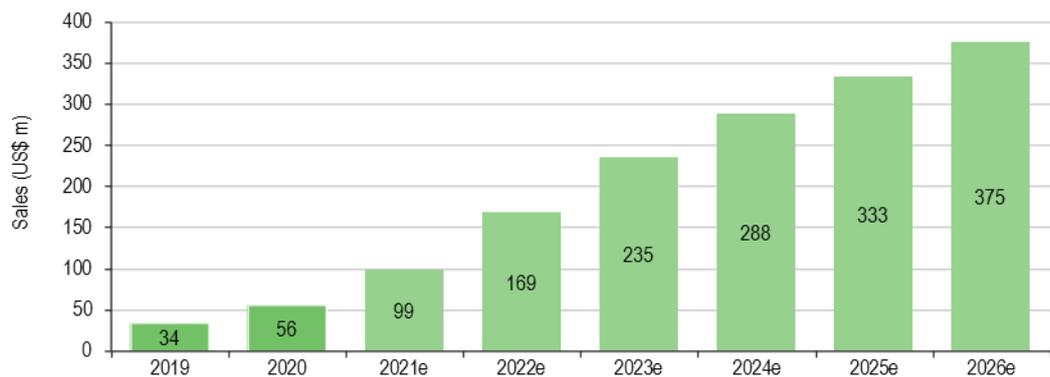
## Evolus deal rationale

Evolus markets Jeuveau (prabotulinumtoxinA-xvfs), an FDA-approved, first and only neurotoxin dedicated exclusively to aesthetics. The product is used to temporarily improve the look of moderate to severe frown lines between the eyebrows (glabellar lines), with the injection relaxing muscles responsible for the wrinkles.

Jeuveau's sale began in mid-2019 and net revenues reached US\$64.3m in the first nine months of 2021, more than the entire FY20 revenue and up 83% y-o-y. Nevertheless, the company is yet to break even as it continues to incur marketing expenses for entering new markets and has kept the product price low to stimulate further revenue growth. The product addresses the global aesthetic neurotoxin market currently dominated by botulinum toxin (Botox, Dypport, Xeomin), the aggregate sales of which reached US\$3.6bn in 2020 and are expected to grow at 10% pa (according to Mordor Intelligence).

The debt funding of up to US\$62.5m from BPCR (together with US\$62.5m provided by BioPharma V) will be used to fund Evolus's general corporate and working capital requirements and is the only non-sponsor debt incurred by the company. Evolus expects the first tranche to fund the company beyond cash flow break-even, while it believes the second tranche provides financial flexibility for potential strategic transactions.

**Exhibit 1: Consensus sales of Jeuveau by Evolus (US\$m)**



Source: EvaluatePharma

## Coherus deal rationale

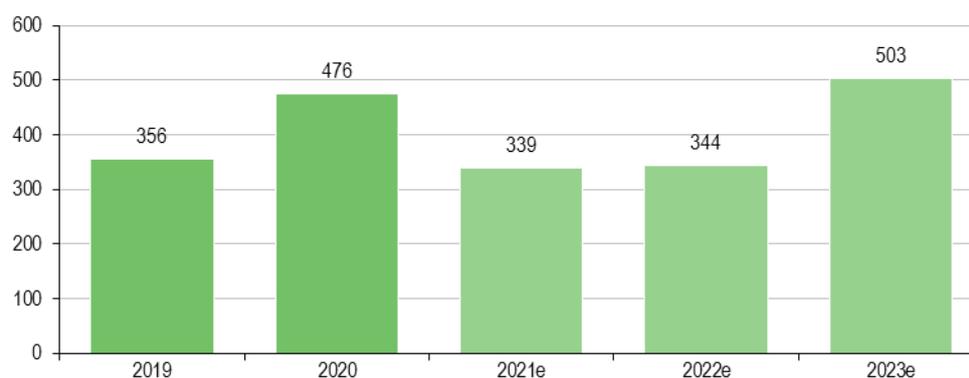
The company currently markets Udenyca (pegfilgrastim-cbqv), which is an FDA-approved biosimilar of Neulasta (used to treat neutropenia, ie low levels of neutrophils in cancer patients) launched in January 2019. The company's 9M21 revenues reached US\$253.2m (vs US\$365.4m in 9M20) with the current Refinitiv consensus for FY21 at US\$339m (implying a c 29% decrease vs US\$475.8m in FY20, see Exhibit 2).

In 2023, Coherus plans to launch biosimilars for **Humira** (a tumour necrosis factor blocker used to reduce the signs and symptoms of rheumatoid arthritis, juvenile idiopathic arthritis, psoriatic arthritis and ankylosing spondylitis, and to treat Crohn's disease, ulcerative colitis and plaque psoriasis), **Avastin** (for the treatment of metastatic colorectal cancer) and **Lucentis** (used to treat wet age-related macular degeneration, as well as diabetic eye disease and other diseases affecting the retina). As a reference point for the total addressable market for these biosimilars, global peak sales were US\$20.5bn in 2017 for Humira, US\$7.1bn in 2019 for Avastin and US\$4.3bn in 2014 for Lucentis. Coherus announced on 20 December 2021 that the Humira biosimilar (marketed under

the name Yusimry) was approved by the FDA. Furthermore, the FDA is currently reviewing the biologics licence application for the Lucentis biosimilar (CHS-201) with a target action date in August 2022.

Coherus's strategy is to build a leading immunoncology franchise funded with cash generated from its biosimilars business. In early 2021, the company has in-licensed toripalimab (an anti-PD-1 antibody) in the United States and Canada. Its biologics licence application is currently subject to a priority review by the FDA for treatment of metastatic or recurrent nasopharyngeal carcinoma (with a target action date in April 2022). Toripalimab is also being evaluated in pivotal clinical trials for other indications, including lung, breast, liver, skin, kidney, stomach, oesophagus and bladder cancers.

**Exhibit 2: Revenue consensus estimates for Coherus (US\$m)**



Source: Refinitiv

## Amendments to existing deals

BPCR announced it will invest an additional US\$50m (with another US\$50m invested by BioPharma V) in the GBT loan it originally provided in December 2019 (see our [January 2020 note](#)). BPCR had already funded both previous tranches with an aggregate volume of US\$82.5m (with a further US\$67.5m provided by BioPharma-V). The third tranche will mature in December 2027 and bear interest at three-month Libor plus 7.00% subject to a 2.00% floor (in line with the terms of the previous two tranches). BPCR will also receive a one-time funding fee of 1.50% and an additional 2.00% payable on loan repayment. At the same time, the maturity of the earlier two tranches was extended from December 2025 to December 2027 in exchange for a 1.25% fee and a reset of the three-year make-whole period to December 2021. We note that GBT's flagship product Oxbryta successfully launched in late 2019 and reached US\$124m in sales in 2020; according to Evaluate Pharma's consensus estimate, 2021 sales reached c US\$206m (up 66% y-o-y).

On 16 November 2021, BPCR amended the terms of the Optinose loan originally provided in September 2019 (see our [September 2019 note](#) for details). The amendments include reduced sales covenants, extension of the interest-only period by nine months with the amortisation period beginning in September 2023 and extension of the make-whole period by an additional 30 months. BPCR also received new warrants with a lower strike price and a new three-year maturity (with the original warrants being cancelled).

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