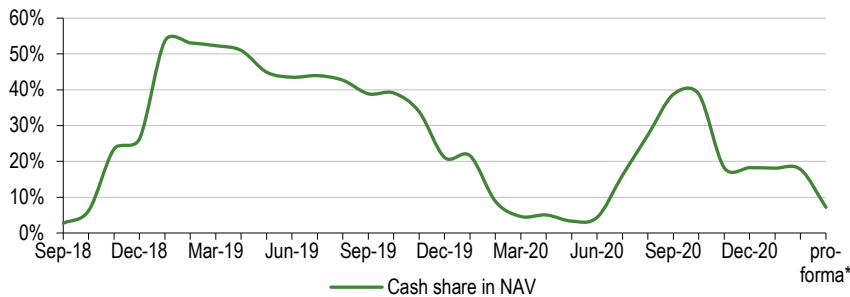


BioPharma Credit

Debt investment in a COVID-19 test provider

On 24 March 2021, BioPharma Credit (BPCR) announced that it has entered into a US\$150m senior secured loan agreement alongside BioPharma Fund V (which provided a further US\$150m) with LumiraDx – a next-generation, point-of-care diagnostic company. LumiraDx manufactures rapid diagnostics equipment, including antibody and antigen tests to detect SARS-CoV-2 infections, used by the UK National Health Service, the CVS Pharmacy chain in the US and widely deployed in Africa in cooperation with the Bill & Melinda Gates Foundation. The transaction assists BPCR in achieving full dividend cover this year.

Steady deployment of prepayment proceeds



Source: BioPharma Credit. Note: *Pro-forma at end-February 2021 post LumiraDx deal.

Expected IRR close to portfolio average

The LumiraDx loan offers a yield to maturity of c 10%, which is broadly in line with BPCR's historical deals (weighted average projected internal rate of return (IRR) of 10.8% at the time of investment), as the somewhat lower coupon rate (fixed at 8.0% vs c 9% weighted average for BPCR's portfolio) is offset by higher funding and exit fees, at 2.5% and 1.5%, respectively. The IRR will be higher if LumiraDx repays the loan prior to its maturity in March 2024 (we note that US\$425m of BPCR loans were prepaid in 2020) with the loan being subject to a two-year make-whole arrangement. BPCR also received warrants that currently have no value attached in BPCR's net asset value (NAV) and are a potential NAV kicker on LumiraDx's IPO (its planned Nasdaq listing, through which it aims to raise US\$100m, is currently in progress). No detailed terms of the warrants were disclosed though.

Dividend and ongoing charge covered

The transaction reduces BPCR's cash drag, with its net cash currently at c 7% of NAV based on our calculations. BPCR's investment manager has indicated that this transaction goes a long way to covering the US\$0.07 annualised dividend (implying a c 7.2% yield) and while this is still contingent on future prepayments and new transactions, we believe that BPCR still has time to generate additional income in 2021 to facilitate full dividend cover.

Investment trusts
Debt: Direct lending

1 April 2021

Price US\$0.97
Market cap US\$1,338.2m
NAV* US\$1,393.1m

NAV per share* US\$1.014
Premium/(discount) to NAV (4.3%)

*As at end-February 2021

Yield 7.5%
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

*A-shares. **Including income.

Gearing

Net cash at 28 February 2021 18%

Fund objective

BioPharma Credit was incorporated in the UK in October 2016 and 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 offset by prepayment fees).

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BioPharma Credit is a research client of Edison Investment Research Limited

Deal rationale

LumiraDx developed and markets the LumiraDx Platform – a portable device with replaceable tests providing results within minutes from samples with lab test accuracy. It currently markets four tests used with its device, with a total addressable market of c US\$20bn in FY21 (according to company estimates):

- LumiraDx SARS-CoV-2 Ab Test – for qualitative detection of SARS-CoV-2 antibodies,
- LumiraDx SARS-CoV-2 Ag Test – for detection of infection with SARS-CoV-2,
- LumiraDx INR Test – measuring the prothrombin time, used for monitoring patients on oral anticoagulation therapy with Vitamin-K Antagonist drugs, and
- LumiraDx D-Dimer Test – used to quantify D-Dimer levels – an aid in the assessment and diagnosis of patients with suspected venous thromboembolism such as deep vein thrombosis and pulmonary embolism.

All the tests are cleared for sale in the European market, while the LumiraDx SARS-CoV-2 Ag Test is also authorised in the US (and is, for example, sold to the CVS Pharmacy chain) under the Emergency Use Authorization. Requests for clearance of the other three tests in the US are to be filed in 2021 (with LumiraDx SARS-CoV-2 Ab Test already pending approval). LumiraDx reported last 12 month revenues as at end-June 2020 of c US\$25m, which only includes the sale of INR and D-Dimer tests, as both SARS-CoV-2 tests were cleared for sale in Europe in H220 and should act as a significant revenue driver going forward. As at end-December 2020, the company had placed more than 7,000 devices with over 500 customers across more than 25 countries.

Furthermore, LumiraDx also has a rich pipeline of 30 tests under development to be used with the device. In 2021, the company expects to submit six of them for regulatory certifications in the areas of infectious diseases (including flu), diabetes and cardiovascular diseases. In addition to the LumiraDx platform, the company is developing its Amira System (expected submission in 2021 as well), which is currently in the feasibility phase. The system is a high-volume, lower-cost SARS-CoV-2 mass population screening solution for potential use in home COVID-19 testing.

The company was launched in 2014 by Ron Zwanziger, Dave Scott and Jerry McAleer. The founders have extensive experience in the med-tech business, including founding Alere in 1991 (then SelfCare), a global manufacturer of rapid point-of-care diagnostic tests, which was acquired by Abbott Laboratories in 2017 for US\$5.3bn. The company is supported by institutional investors, including the Bill & Melinda Gates Foundation, Morningside Ventures and U.S. Boston Capital Corporation.

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