

BioPharma Credit

Debt investment in Collegium Pharmaceutical

BioPharma Credit (BPCR) has entered into a definitive agreement to provide US\$165m in a single-tranche senior secured loan to Collegium Pharmaceutical, a Nasdaq-listed biopharmaceutical company, which currently markets an abuse-deterrent formulation of oxycodone (opioid) under the Xtampza brand, as well as Nucynta, a centrally acting synthetic analgesic. Collegium reported US\$223m in total sales for these two drugs in 9M19. The investment is made alongside BioPharma-V, which provides an additional US\$35m, implying BPCR's share of the deal is 83%.

Floating coupon and attractive upfront fee

The loan bears a floating coupon rate of Libor + 7.5% pa with a 2.0% floor, which is broadly in line with BPCR's recent transactions. At the same time, BPCR will receive an upfront fee of 2.5%, which is somewhat ahead of its current portfolio investments (0–2%) and translates into a c US\$4.1m cash inflow on drawdown of the loan. The loan has a four-year term and matures in February 2024. No details about exit or prepayment fees have been disclosed at this stage.

BPCR's net cash position is c 9% of NAV

We estimate that, after funding the Collegium Pharmaceutical loan, BPCR's net cash position will represent less than 10% of its NAV. BPCR currently has c US\$320m in outstanding commitments, most of which are to be drawn before the end of 2020 (if at all), while none of BPCR's debt investments mature in 2020. We calculate that BPCR's current portfolio of senior secured loans (of which 55% have a floating rate) pays a weighted average coupon of 9.2%, which broadly covers its dividend target and ongoing charges. Consequently, we believe BPCR is likely to seek external capital in 2020 to meet its commitments or fund new investments. Additional income may come from its investments in royalty streams, convertible bonds and equities, which currently make up 16% of the portfolio.

Valuation: Offers a c 7% dividend yield

As at 7 February 2020, BPCR's shares are trading at a minor 2.1% discount to last reported NAV (as at end-December 2019). The shares currently offer a 7.2% trailing dividend yield, in line with BPCR's target of an annual dividend yield of 7% with respect to its IPO price of US\$1.00.

Investment trusts
Debt: Direct lending

17 February 2020

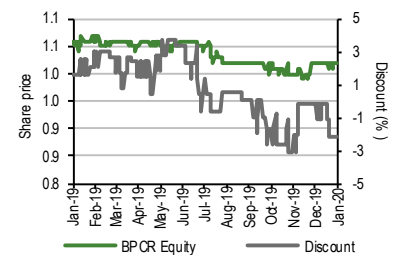
Price US\$1.00
Market cap US\$1,373.9m
AUM US\$1,403.7m

NAV* 102.16c
Premium/(discount) to NAV (2.1%)

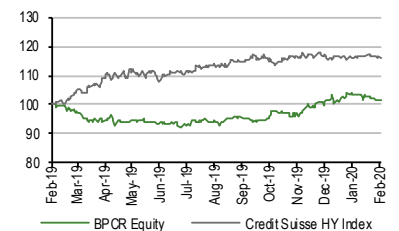
*As at end December 2019.

Yield 7.2%
Ordinary shares in issue 1,373.9m
Code BPCR
Primary exchange LSE
AIC sector Debt – Direct Lending
Benchmark N/A

Share price/discount performance



Three-year performance vs index



52-week high/low US\$1.07 US\$0.99
NAV* high/low US\$1.04 US\$1.01

*Including income.

Gearing

Gross* 0.0%
Net* 0.0%

*As at end-December 2019.

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Deal rationale

Nucynta (tapentadol) is a centrally acting synthetic analgesic, which is used to manage pain severe enough to require daily around-the-clock, long-term treatment with an opioid. The drug was first launched in June 2009 and its extended release formulation (Nucynta ER) entered the market in September 2011. Collegium Pharmaceutical's management expects FY20 Nucynta sales of US\$170–180m, down from US\$211m in 2018 and vs US\$145m reported in 9M19. EvaluatePharma consensus (based on six analysts who provided their forecasts in August to-October 2019) is US\$196m for FY20 on a combined basis (ie including both the immediate-release and extended release formulations) and implies broadly flat sales of US\$190–200m pa until BPCR's loan matures in 2024. The flat sales profile reflects the fact that tapentadol is classified as a Schedule II drug, which means it is subject to increasingly stringent regulations to reduce abuse (as opposed to Schedule III drugs such as [BDSI's Belbuca](#)).

We note that Nucynta is well known to BPCR as it has been an underlying drug in its seed portfolio (see our [initiation note](#)), when Assertio Therapeutics (formerly Depomed) owned the rights to market the drug in the US. On 6 February 2020, Collegium Pharmaceutical acquired the rights to the Nucynta franchise in the US from Assertio for US\$375m in cash, which terminated the licensing agreement between the parties. Since entering into the agreement in January 2018, Assertio has been eligible for royalty payments from Collegium, which amounted to c US\$135m in 2018 according to our estimates.

Xtampza is an abuse-deterrent, extended-release, oral formulation of oxycodone (opioid), which presents statistically significant lower abuse potential compared with immediate release (IR) oxycodone. Like Nucynta, it is used in the treatment of severe and long-lasting pain. The drug was FDA-approved and first launched in June 2016 and achieved US\$78m in sales in 9M19. According to EvaluatePharma consensus, sales are expected to grow at a CAGR of 26% (2018–23) and reach US\$219m in 2023. The 2020 sales estimate is US\$134m compared to recent Collegium sales guidance of US\$150–160m. We note that despite Xtampza being abuse-deterrent, the active ingredient of the drug (oxycodone) is one of the six most frequently misused opioids, and as such is subject to manufacturing quotas set by the Controlled Substances Act (CSA) and the Drug Enforcement Administration (DEA). Consequently, these quotas could at some stage affect Xtampza's sales expansion.

The opioid epidemic in the US and other markets is significant and results in an estimated 130 deaths from overdose every day, according to the US National Institutes of Health. The opioid crisis is partly due to the rise in surgical procedures and the number of cancer patients. While efforts to reduce opioid prescriptions have had an effect, some sources suggest that this is due to a reclassification of some drugs. Nevertheless, demand for opioid formulations is likely to remain high from patients requiring pain management, especially with respect to abuse-deterrent substances. The global opioid market was estimated at US\$23bn in 2017 and is expected to grow at a 4.5% CAGR by 2026, according to Industry Watch.

Overall consensus estimates for combined sales of Nucynta and Xtampza are US\$1.5bn (7.5x the face value of the loan) until loan maturity in 2024. We note that following the termination of the licensing agreement with Assertio, Collegium is the sole owner of Nucynta's revenue streams. We consider the loan well covered given that both brands are already established on the market and generate substantial revenues. Although it is yet to achieve sustained profitability, which is not uncommon for an early-stage speciality pharma company, Collegium actively markets the product to 11,000 healthcare professionals, who write c 65% of branded extended-release oral opioid prescriptions in the US, according to company estimates.

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