The right prescription

Pharming wanted to buy back the rights to its own drug, but didn't have the backing to pull it off. Kreos Capital had a remedy, writes **Nathan Williams**

Dutch pharmaceutical company Pharming very nearly missed a trick. It had developed Ruconest to treat a rare and debilitating swelling disorder. However, the drug was not reaching its full commercial potential in the US and Canada and Pharming no longer had the rights to the treatment in those countries.

After Pharming sold the rights in 2010, they had changed hands twice. The new owner – pharmaceutical giant Valeant – was looking to sell and Pharming knew it had to get the rights back. Unfortunately, the firm had neither the wherewithal nor private equity backing needed to rustle up the funds for a deal. It needed a remedy, and fast.

For Sijmen de Vries, chief executive of Euronext-listed Pharming, the solution was to turn to growth debt specialists Kreos Capital.

"When the need for financing came up we were the first port of call for Sijmen. He had been the CEO of one of our other portfolio companies, so we had known him for many years and he knew our capabilities," says Maurizio PetitBon, general partner at Kreos.

Maurizio PetitBon

$1.7bn

Capital invested by Kreos to date

Kreos has a strong claim to the title of pioneer in the speciality financing for growth companies, with a near 20-year history and more than $1.7 billion invested across almost 500 companies. It acted as a cornerstone investor for Pharming's repurchase of the North American licence for the drug from New York-listed Valeant.

Simon Hirtzel, Kreos' general partner and chief operating officer, says the financing package put before Pharming last December is an example of his firm's evolution. "It was at the larger end of what we do, but played to our experience in healthcare," he says.

The events which led to the deal began in 2010, when Pharming sold the North American rights to Ruconest – a drug used to treat a condition call Hereditary Angioedema – to biopharmaceutical firm Santarus as part of a $20 million partnership. The deal would see the drug – marketed as Rhucin outside of Europe – commercialised across the pond. Things did not go to plan. Santarus was bought by Salix in 2013 and, within 18 months, Salix was in turn acquired by Valeant. Ruconest was not the driver for any of the transactions, PetitBon says.

"Although the company was earning royalties from sales, it was not getting the full value of the product or the full sales potential, despite Ruconest having a dedicated sales force. Valeant was missing an opportunity," says PetitBon.

When an opportunity did present itself, the window of time Pharming had was small. "The deal needed to be done very quickly because Valeant was working to a strict deadline. We had to be able to deliver in very short time. Three or four weeks," says Hirtzel.

As well as needing to put together a major financing package swiftly to repurchase the licence for Ruconest, PetitBon says Pharming needed a facility to inject additional working capital to finance US sales and marketing.

"We structured the deal in several tranches," says PetitBon. "We provided a senior secure amortising facility of $40 million, something we always do because amortising debt means we don't need to use other covenants: we get cash back every month and that allows us to allocate cash towards our winners. And as part of the package we took half of a convertible debt tranche of $12.5 million. That was reasonably new for us but we felt confident in the deal."

The package features a five-year loan payable at 8.5 percent interest, with a facility convertible into shares at a 25 percent premium to the 20-day average price around the time of the deal. The convertible, says Hirtzel, "is a piece that is innovative and from a deal qualification point of view is clearly a highlight". To help the firm manage its portfolio, Kreos syndicated part of the senior debt to Californian bank SVB. "We have the ability to take a big ticket to a company and can manage our portfolio and syndicate if needed. In this case, it helped us to reach a level that made sense in the portfolio," says Hirtzel.

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As well as the route to equity through the convertible tranche, the firm also has an equity kicker in the form of warrants alongside the senior debt. This, Hirtzel says, is to ensure interests are aligned and Kreos is invested in the company's future growth. In total the package, which came to over $100 million, shows what's possible outside of the sponsored space and especially in the listed space, where a company's financing options may be limited.

"The deal proves there is a population of public companies which offer good lending opportunities, where the company is sponsorless but high growth, and has no access to traditional financing," adds Hirtzel.

To underscore this point, PetitBon says the firm had several inbound enquiries from public companies after the closing of the Pharming deal.

As for Pharming, PetitBon says the relationship is likely to endure for some time: "It was a transformational deal for them. The underlying technology has other applications and we can certainly see the possibility of doing further lending. I wouldn't discount three or four tranches." ■

A DRUG IN DEMAND

There are around 6,000 people in the US who suffer from the rare genetic disease Hereditary Angioedema (HAE). The condition condemns sufferers to severe, and sometimes fatal, episodes of swelling. Patients have a defect in the gene that controls a blood protein called the C1 inhibitor. This protein regulates the inflammatory response, disease fighting and blood clotting, but when it fails to function, painful swelling and inflammation – known as edema – occurs. Ruconest is one of several commercially available C1 inhibitor treatments used to treat HAE attacks. Ruconest stands out as it is synthetic – and not derived from human blood – so does not carry the risk of passing on viruses. The drug's biggest rival is current market leader Cinryze, owned by Irish drugmaker Shire.