

## Intarcia Pre-Commercial Royalty Financing: the Start of a New Trend or One-Off Deal?

May 1, 2015

Boston-based biotech Intarcia Therapeutics announced this week that it had secured \$225 million in a private synthetic royalty financing. The financing is in the form of limited recourse notes that entitle the holders to 1.5% of future net sales of Intarcia's lead product candidate until the borrowed amounts have been repaid in full or the notes mature. The notes are convertible into Intarcia common stock at a conversion price corresponding to an equity valuation of \$5.5 billion, commencing on U.S. regulatory approval of the lead product candidate and ending on the later of the second anniversary of approval or December 31, 2019. The investors were not disclosed, and only summary terms of the deal were released.

Intarcia's lead product candidate, ITCA 650, is a matchstick-size pump that is inserted in the body subdermally to deliver up to a full year of treatment and is being developed for type 2 diabetes. ITCA 650 is in continuing Phase 3 trials, and Intarcia expects to file for regulatory approval in early 2016.

This financing is remarkable for a number of reasons. It is not the largest royalty transaction ever – that honor belongs to Royalty Pharma's \$3.3 billion acquisition of royalties on Vertex Pharmaceuticals' cystic fibrosis treatments from Cystic Fibrosis Foundation Therapeutics in November 2014. However, \$225 million is a very large royalty financing for a company that is two years away from commercialization and in the midst of complex Phase 3 trials for a large indication. In addition, the terms are incredibly attractive to the company: ITCA 650 would need to generate \$15 billion of net sales in order for the investors to fully recoup their investment, and in the meantime, Intarcia undertakes no immediate debt or payment obligations and no immediate dilution. At a time when biotechnology companies in even earlier stages of clinical development are choosing to IPO in record numbers, it is interesting that Intarcia has resisted entering the public markets (having raised over \$400 million from private equity sales since 2012 plus partnership upfront and milestone payments). But if financing is available at such attractive terms, why not? Through this deal, Intarcia gained \$225 million without repayment or dilution for several years. In the meantime, the company and its existing shareholders maintain control and believe they have the funds to launch ITCA 650 without a large pharmaceutical partner. We imagine that other pre-commercial biotech companies would be extremely interested in such royalty financings and are interested to see if there is additional investor appetite for such deals (perhaps in the generalist, rather than the life sciences specialist, investor ranks) or whether this transaction is a one-off endorsement of a candidate that has garnered a lot of confidence.

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