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BioCentury

THE BERNSTEIN REPORT ON BIOBUSINESS®

Ebb & Flow

Royal treatment

By Stacy Lawrence
Senior Writer

For the second time this month, a sizeable first-time fund with a seasoned team has closed above its initial target. Last week, **Cowen Healthcare Royalty Partners** closed its first fund at more than $500 million.

In early July, Longitude Capital, spun out of Pequot Capital, closed a $325 million fund, above its $250 million target *(see BioCentury, July 14)*.

CHRP reached a funding cap it had negotiated with its lead investors. The initial target was $350 million. The firm launched in January 2007 with the three founders, Todd Davis, Clarke Futch and Gregory Brown, all coming from positions as partners at Paul Capital *(see BioCentury, Jan. 8, 2007)*.

The firm will focus on commercial and near-commercial healthcare products and companies through the purchase of existing royalties, the creation of royalties on revenue streams, as well as the combination of royalties with equity or debt securities. It expects each investment to be $20-$100 million.

Davis told Ebb & Flow he expects the fund to be split about 60/40 between biopharmaceutical and medical device companies. The firm also anticipates about a 50/50 distribution between the purchase of existing royalties and the establishment of new royalties based on revenue.

Brown added that 25-30% of the fund will be invested outside the U.S.

He said the firm has made two investments to date, one for $22.5 million in dermatology company **Artes Medical** and another of $60 million to buy an existing royalty on an undisclosed biopharmaceutical product. Another 3-5 deals are at a fairly advanced stage.

Davis said the firm expects to work with private and small to mid-cap public companies. "They are attracted to us because the royalty structures that we often employ are typically less expensive and non-dilutive relative to equity. And it is less restrictive and covenant-light compared to debt," he said. "We can do poorly if the company does poorly — our returns can be highly variable and are much more aligned with the company."

The fact that royalty investment is "non-correlated to capital markets" helped the firm make its case to potential LPs, Davis said. "We have no J curve. We have cash flow fairly steadily over the entire portfolio, exiting quarterly through royalty contracts and royalty payments," he added.

Davis argued that some of CHRP's competitors have employed a leverage strategy — using debt rather than money from LPs to fund investments — which has made these deals less attractive to companies as the cost of capital has risen with the credit crunch.

Cowen Group, of which CHRP is an affiliate, provided an anchor commitment. Eleven investors account for about $470 million of the fund.

LPs include public and corporate pension funds, financial institutions, insurance companies, funds-of-funds and university endowments. Among them are OMERS Capital Partners, Crestline Management, Nordea, Strategic Investment Group, New York Life Insurance Company and The Travelers Companies.

CHRP used Credit Suisse as a financial advisor and placement agent.

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