ALTERNATIVES WATCH

NovaQuest finds value in drug commercialization

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NovaQuest Capital Management Founding Partner and CIO Jonathan Tunnicliffe

NovaQuest's partners have found an interesting way to invest in pharmaceuticals at a time when neither the focus on healthcare nor the potential for treatment of rare diseases have been greater.

"We are investing in the late stages of R&D and commercialization of pharmaceutical products," said Jonathan Tunnicliffe, the founding partner and chief investment officer of NovaQuest Capital Management.

The investment firm was founded as part of Quintiles, now known as IQVIA, to handle strategic investments. It became independent in 2010 and now has $2.75 billion in assets under management. It is investing out of its current fund, which has $1.2 billion to put to work.

Tunnicliffe said that the firm's primary strategy is to identify promising products in the late stages of development and then provide the funding necessary to bring them to market.

"We're not trying to underwrite the science. We're looking to interpret the data," he said. Funding typically covers Phase III clinical trials, regulatory filings and approvals, and preparation for launch. Because the products have come through early-stage clinical trials, the risk is low. "We call it a product finance model," Tunnicliffe said, and he said it is especially attractive right now. "The volume of products that are coming through the pipeline is creating a demand for financing," he said.

Generally, NovaQuest invests alongside a pharmaceutical company and receives payments based on milestone achievement or royalties. The financing is non-controlling but also non-dilutive, and NovaQuest does not need an exit event before receiving a return on investment. The pharmaceutical companies developing the products do not need to raise equity or sell out to a global company to bring a product to market.

NovaQuest's investors like that the returns are not correlated. They also like the potential. Tunnicliffe said that there are about 1,000 drugs in Phase III, and the number is growing at about 8% a year.

The cost to bring a product to market after it has passed Phase II trials to market can exceed $200 million. The sheer number of opportunities makes this a sustainable alternative investment, he said.

A big area of interest is treatments for rare diseases, those that affect relatively few patients. The drugs won't be blockbusters like cholesterol-lowering medications, but they have enormous potential for improving peoples' lives. The FDA and regulatory agencies in other countries have prioritized reviews of applications for rare disease treatments, adding to their attractiveness.

In May 2021, NovaQuest announced a $35 million product finance agreement with Aceragen, Inc., a biopharmaceutical company working on treatments for various rare diseases. The project is a treatment for Farber disease, a genetic condition that causes lumps of fat to form under the skin. The effects include deformity, joint damage, and respiratory complications. The current treatment options are limited to symptom management.

More recently, Azurity Pharmaceuticals entered into a definitive agreement to acquire Arbor Pharmaceuticals from existing investors, including JW Asset Management and KKR.

Azurity Pharmaceuticals was born as a corporate identity in June 2019 with the acquisition of Silvergate Pharmaceuticals by CutisPharma.

NovaQuest Capital Management, which supported CutisPharma and its management team in the transaction, became the majority owner of the new entity, which focused on developing drug delivery technologies to provide customized dosage forms to patients. The value of that transaction was not disclosed, but it was backed by NovaQuest Fund I, which held its final close with $275 million.

COVID has affected late-stage pharmaceutical investing as it has affected everything else. Lockdowns led to delays in clinical trials and difficulty reaching physicians to introduce new products. At the same time, Tunnicliffe said the regulatory agencies improved pharmaceutical approval processes in part to make it easier to bring vaccines and treatments to marketing.

"The industry has done well, and science has won the day," he said.