BioPharma
CREDIT PLC

# Generating strong returns

Half-Yearly Report for the period ended 30 June 2019

## Welcome to our Half-Yearly Report

# BioPharma Credit PLC provides investors with the opportunity to gain exposure to the fast-growing life sciences industry

# Our diversified portfolio is mostly secured by royalties or cash flows derived from sales of approved life sciences products



# 2019 Highlights

## FINANCIAL

### Ordinary Shares
as at 30 June 2019

**Share price**

**$1.0600**

(31 December 2018: $1.0650)

**NAV per Share**

**$1.0258**

(31 December 2018: $1.0044)

**Premium to NAV per Share**

**3.3%**

(31 December 2018: 6.0%)

**Shares in issue**

**1,373.9m**

(31 December 2018: 1,373.9m)

### Assets
as at 30 June 2019

**Net assets**

**$1,409.4m**

(31 December 2018: $1,380.0m)

**Leverage**

**0%**

(31 December 2018: 0%)

**Target dividend**

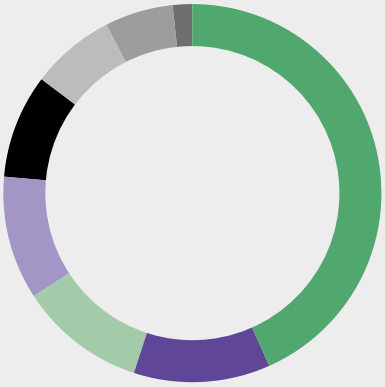
**7 cents per annum**

## INVESTMENTS

### Portfolio composition

| Portfolio composition | As at 30 June 2019 ($m) | As at 31 December 2018 ($m) |
|---|---|---|
| Cash and cash equivalents | 612.9 | 363.6 |
| Limited partnership interest in BioPharma III | – | 7.6 |
| Tesaro senior secured loan | – | 322.0 |
| Lexicon senior secured loan | 124.5 | 124.5 |
| Novocure senior secured loan | 150.0 | 150.0 |
| Sebela senior secured loan | 164.8 | 188.7 |
| BMS purchased payments | 103.0 | 64.4 |
| Amicus senior secured loan | 150.0 | 150.0 |
| BioDelivery Sciences senior secured loan and equity | 83.3 | – |
| Convertible bonds (undisclosed issuer) | 21.3 | – |
| Other net assets | (0.4) | 9.2 |
| **Total net assets** | **1,409.4** | **1,380.0** |

### Portfolio diversification as at 30 June 2019



| Type | Percentage |
|---|---|
| Cash and cash equivalents | 43.6% |
| Sebela senior secured loan | 11.7% |
| Novocure senior secured loan | 10.6% |
| Amicus senior secured loan | 10.6% |
| Lexicon senior secured loan | 8.8% |
| BMS purchased payments | 7.3% |
| BioDelivery Sciences senior secured loan and equity | 5.9% |
| Convertible bonds | 1.5% |
| Other net assets | 0% |

MOST RECENT INVESTMENT IN 2019

Senior secured corporate loan to BioDelivery Sciences

**$80m**

Read more on page 12

## At a Glance

# Our primary objective is to generate predictable income for Shareholders over the long term

WE WILL SEEK TO ACHIEVE THIS BY CONTINUING TO BUILD A HIGH QUALITY PORTFOLIO

## March 2017

**Amount invested:**
$23.5m convertible notes
13 September – 31 October 2017

**Amount invested:**
Tranche A: $222m funded 6 December 2017.
Tranche B: $100m funded 29 June 2018

**Amount committed:**
Tranche A (funded): $124.5m
Funded 6 December 2017

**Amount committed:**
$140-160m
First payment funded 24 May 2018


**We target high quality investments...**

The Company will mainly invest in debt secured by rights to approved life sciences products or royalties from sales of approved life sciences products. Subject to predetermined limits, the Company may also invest in unsecured debt and equity interests.

### Debt
Investments seek predictable cash flows with downside protection

### Secured
Product rights or royalties will serve as collateral for the debt

### Rights
Intellectual property, regulatory and other rights that give a life sciences company exclusivity on products and methods of treating certain diseases

### Life sciences products
Products may include pharmaceuticals, bio-pharmaceuticals, medical devices and clinical diagnostics

### Royalties
Right to receive a pre-determined percentage of product sales derived from a licence agreement

### Commercially approved
Product has met regulatory requirements and is available to patients

## 2018

**Amount invested:**
$150m

7 February 2018

**Amount invested:**
$194m

20 April 2018

**Amount invested:**
$150m

20 September 2018

## 2019

**Amount invested:**
$25m equity 11 April 2019
Tranche A (funded): $60m
Tranche B (undrawn): $20m
Funded 28 May 2019


**...and have clear investment opportunities.**

Providing debt capital for the life sciences industry is an attractive investment opportunity with strong risk-adjusted returns.

## 01

### Life sciences debt is a large and attractive market

Annual global life sciences product sales of publicly traded companies were $1.2 trillion in 2018 and growing

Large capital needs, private sector spent $210 billion in R&D during 2018

## 02

### Industry dynamics create new debt investment opportunities

The specialisation and fragmentation in the industry results in new revenue generating companies every year

Companies with products that have predictable revenues yet large R&D budgets are ideal borrowers

## 03

### Product and structural expertise help optimise risk/reward

Life sciences products have predictable cash flows with a long runway of visibility that are uncorrelated to economic or financial indicators

The Company has a highly experienced investment manager with a strong track record

Read more on pages 8 and 9

## Chairman's Statement

# During the first half of 2019, the Company invested $165.7 million

### Introduction

During the first half of 2019, the Company invested $165.7 million. New commitments totalled $127.1 million, which included our first ever equity investment which was for $25.0 million into shares of BioDelivery Sciences International, Inc. ("BDSI"), a NASDAQ listed company. Further details are provided in the Investment Manager's report. In addition, the Company funded a further $38.6 million of the commitment it made in 2017 to acquire an interest in a stream of payments from Bristol Myers Squibb. On 22 January 2019, GlaxoSmithKline completed its acquisition of TESARO Inc ("Tesaro"), triggering the repayment of the Company's $322.0 million loan and generating $45.8 million in prepayment and other fees. The Company had cash and short-term investments of $612.9 million at 30 June 2019.

On 19 June 2019, The Company held its second Annual General Meeting at which all resolutions were passed.

## Shareholder Returns and Investment Performance

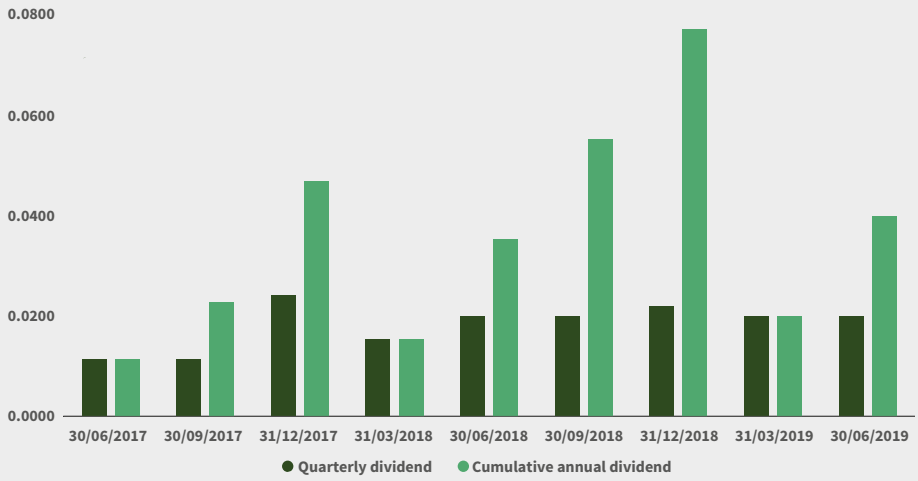
On 30 June 2019, the Company's Ordinary Shares closed at $1.0600, slightly below the closing price on 31 December 2018 of $1.0650. In the first half of 2019, the Net Asset Value ("NAV") per Ordinary Share increased by $0.0214 from $1.0044 on 31 December 2018 to $1.0258 per share on 30 June 2019. Over the period, the Company made two dividend payments, one of $0.0193 and the other of $0.0175 in respect of the quarters ended 31 December 2018 and 31 March 2019, for a total of $0.0368 for the six-month period.

## Outlook

As at 30 June 2019, the Company had total assets of $1,421.1 million, represented by $796.9 million of investments, $612.9 million in cash and $11.3 million in other assets. Pharmakon Advisors, the Company's Investment Manager, is in continuing discussions with a number of potential borrowers and, as you will see from their report which follows, they aim to deploy a majority of the cash available by the end of 2019.

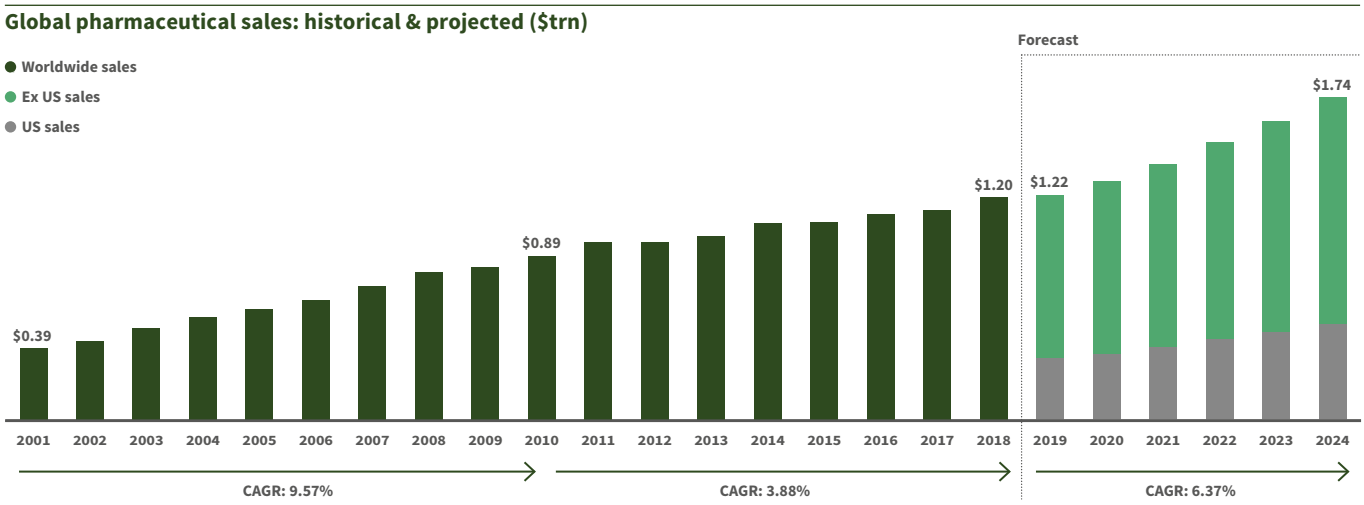
**Jeremy Sillem**
Chairman
3 September 2019

**Dividend history**



## Market Overview

# Life sciences is a large, vital industry with a track record of strong, consistent growth




Source: Statista

**Expected pharmaceutical sales**

**$1.74trn**

by 2024

## Size and growth dynamics of the industry

The life sciences industry is made up of pharmaceutical, biotechnology, device and diagnostic firms. It is a large and vital industry with a track record of strong, consistent growth. Worldwide pharmaceutical industry revenues in 2018 were approximately $1.2 trillion and are expected to reach $1.7 trillion by 2024, reflecting a compounded annual growth rate of six per cent. While medical and scientific advances contribute to a portion of that increase, other growth drivers include more basic demographic and macroeconomic factors, such as a growing and ageing population and increasing prosperity in developing countries, which is improving access to healthcare for millions of patients.

## Product lifecycle

Pharmaceutical and biotechnology products have a long life cycle, which can provide considerable downside protection for the Company. Worldwide patents can lead to more than 20 years of protection, which frequently translates into as long as 15 years of exclusivity from the time the products are first approved by regulatory agencies such as the U.S. Food and Drug Administration ("FDA"). Some governments also provide for regulatory exclusivity, which provides for six to ten years of commercial exclusivity independent of an approved patent, if an innovator performs clinical trials. On average, sales growth is very robust for the first 12 years of a product's life cycle, after which some of these products begin to lose exclusivity, and their sales growth slows and starts to decline shortly thereafter. A key driver of initial sales growth is increasing prescriptions from physicians in the early-launch markets, but subsequent commercialisation rates in additional geographic markets, as well as expanding indications, frequently drive attractive growth for more than a decade.

## Market dynamics create fragmentation of the industry and more lending opportunities

Despite growth in the pharmaceutical market, large pharmaceutical companies continue to face mounting pressure on top-line sales from patent expiry on blockbuster products and failures in their R&D pipelines. The internal R&D departments of larger pharmaceutical companies have struggled to replace lost revenue with new products. Dramatically escalating R&D costs have also put pressure on industry participants to adapt their business model and seek partners to reduce risk. The amount of R&D investment per FDA-approved product is now approximately $1.4 billion. As a result of these factors, large pharmaceutical companies are increasingly relying on in-licensing and corporate acquisitions for new products.

Over the last 30 to 40 years, the landscape of the pharmaceutical industry has been transformed from one dominated by fully-integrated pharmaceutical companies to a more dynamic and entrepreneurial R&D ecosystem comprised of thousands of participants. As a result of this R&D evolution, smaller companies, investor groups, universities and non-profit research institutes increasingly have rights to royalty streams on products that have been out-licensed to larger pharmaceutical companies. This broader shift in R&D approach provides an expanding landscape of lending opportunities for the Company, as smaller companies are increasingly partnering with large pharmaceutical companies.

The pharmaceutical and biotechnology ecosystem has evolved to one where innovation and commercialisation, which was once centralised in fewer than 100 big pharmaceutical companies, has now spread among more than 5,000 academic labs, government-funded entities and more than 5,000 biotech companies. The pool of creditworthy borrowers has increased exponentially.

# Investment Manager's Report

# An attractive investment environment to build on past performance

## INTRODUCTION TO THE INVESTMENT MANAGER

Pharmakon Advisors, the Company's Investment Manager, was founded in 2009 and has invested $3.1 billion in 34 transactions on behalf of its clients.

**Pedro Gonzalez de Cosio**
Investment Manager
Co-founder and CEO

Mr Gonzalez de Cosio is the CEO and a Co-founder of the Investment Manager and manages the Company's portfolio. During the 14 years prior to founding the Investment Manager, Mr Gonzalez de Cosio held various positions in the structured finance divisions of Deutsche Bank and JP Morgan in New York, where he was responsible for structuring various forms of collateralised financings and derivatives for US and international clients, including several years covering clients in the life sciences industries.

Mr Gonzalez de Cosio's prior experience also includes various positions in the investment banking division of Nomura Securities in New York, the leasing division of Société Générale in Paris, and coordinating the issuance of external debt for the Mexican Ministry of Finance. Mr Gonzalez de Cosio earned a B.A. degree (Summa Cum Laude) in Business Administration from the University of San Diego and an M.B.A. from INSEAD in Fontainebleau, France.

**Pablo Legorreta**
Investment Manager
Co-founder and Principal

Mr Legorreta is Founder and CEO of Royalty Pharma, an affiliate of the Investment Manager, and a Principal and Co-founder of the Investment Manager, providing advisory oversight. Founded in 1996, Royalty Pharma is the industry leader in acquiring revenue-producing intellectual property, with over $17 billion in royalty assets. Royalty Pharma funds innovation in life sciences, indirectly, when it acquires existing royalty interests from the original innovators (academic institutions, research hospitals, foundations and inventors) or, directly, when it partners with life sciences companies to co-develop and co-fund products in late-stage human clinical trials.

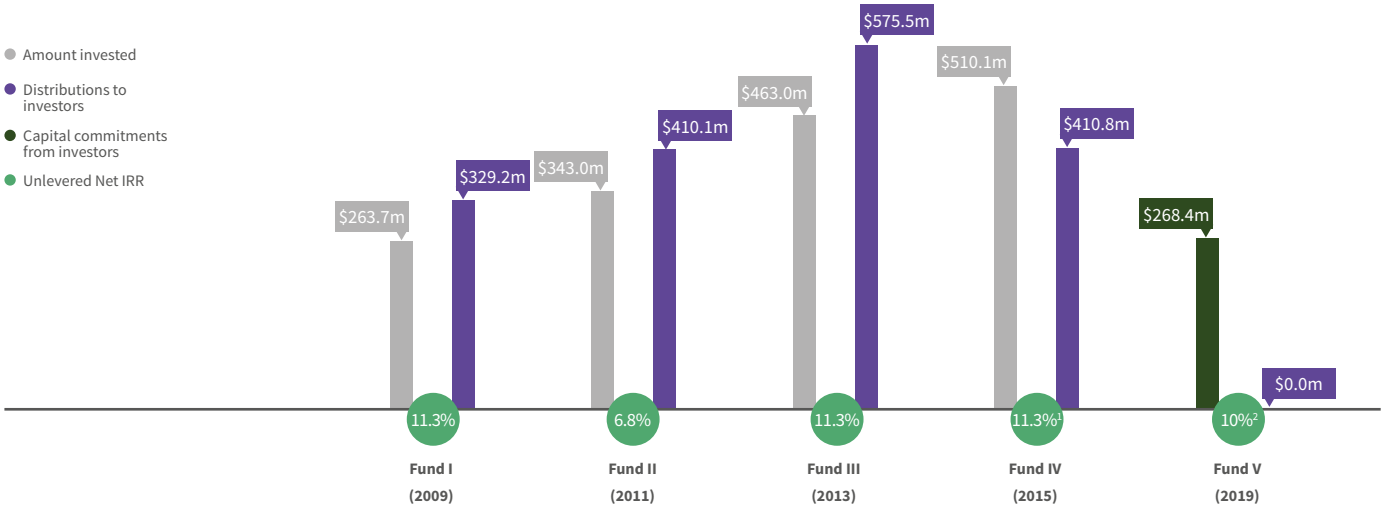
Prior to founding Royalty Pharma, Mr Legorreta spent a decade at Lazard Frères in Paris and New York where he provided cross-border merger and acquisition and corporate finance advisory services to European and US corporations. Mr Legorreta serves on the Board of Governors of the New York Academy of Sciences, and the Boards of Trustees of Rockefeller University, The Hospital for Special Surgery, The Pasteur Foundation (US affiliate of the French Institut Pasteur), The Open Medical Institute, The Park Avenue Armory and Grace Church School. Mr Legorreta founded and is currently Chairman of Alianza Médica para la Salud ("AMSA"), a privately-funded, not-for-profit foundation whose goal is to educate Latin American doctors and healthcare providers to improve the quality of healthcare in Latin America. Mr Legorreta received a degree in industrial engineering from Universidad Iberoamericana (Mexico City).

**Martin Friedman**
Investment Manager
Principal

Mr Friedman is a Principal of the Investment Manager, having joined in 2011. Mr Friedman has spent the past 22 years in various positions in the healthcare finance industry, most recently as the co-head of the US life sciences banking at Bank of America/Merill Lynch. He has worked very closely with both large cap and emerging pharmaceutical, biotech, specialty pharmaceutical, device and diagnostic companies, having advised on M&A transactions and raised equity and debt capital.

Mr Friedman's prior experience also includes his 12 years at JPMorgan, including four years at JPMorgan Partners, and several years as the Head of M&A and Collaborations at Novartis AG based in Switzerland. Mr Friedman earned a B.A. degree in English and History from Columbia College and an M.B.A. (Honours) in Finance and Accounting from Columbia Business School.

**Historical performance of Pharmakon-managed funds**




Reflects historical performance to 30 June 2019 and estimated returns thereafter.
1. Estimated IRR
2. Projected

Pharmakon prides itself on its ability to identify and structure investments that meet its target returns while minimising risk through its rigorous diligence process and industry expertise.

The Pharmakon team has extensive expertise investing in debt and other cash flows backed by life sciences products. As at 30 June 2019, Pharmakon clients included four previous BioPharma Funds (I, II, III and IV) that had reached the end of their investment periods, seven managed co-investor accounts, and a fifth BioPharma private fund (BioPharma V) that had its first closing on 27 June 2019 raising $268.4 million in commitments. The first four BioPharma Funds are expected to generate net returns ranging from 7% to 11%.

Through a shared services agreement with Royalty Pharma, Pharmakon has access to the complementary expertise of the team behind the market-leading investor in pharmaceutical royalties. Royalty Pharma, an affiliate of Pharmakon, was established in 1996 and acquires revenue-producing intellectual property, with over $17 billion in royalty assets.

## KEY HIGHLIGHTS

- 10% unlevered weighted average net returns on four private funds after all fees and expenses
- Pharmakon structured nine transactions worth approximately $1.6 billion over the past 21 months
- On 27 June 2019, Pharmakon had the first closing of BioPharma V, accepting commitments of $268.4 million

# Investment Manager's Report continued

## INVESTMENT UPDATE

The Company's existing portfolio investments continue to perform well. Pharmakon's engagement with multiple potential counterparties resulted in the execution of new investments totalling $127.1 million, including making its first equity investment. BioPharma Credit disbursed an additional $38.6 million during the period corresponding to prior funding commitments, bringing the total amount invested during the period to $165.7 million.


**On 23 May 2019, the Company entered into a senior secured loan agreement for up to $80 million with BioDelivery Sciences International, Inc. (Nasdaq: BDSI), a commercial-stage specialty pharmaceutical company ("BDSI").**

In addition, the Company acquired 5,000,000 BDSI shares at $5.00 each for a total cost of $25 million in a public offering that took place on 11 April 2019. As at 28 June 2019, BDSI's shares closed at $4.65. The first tranche of the loan for $60 million was funded on 28 May 2019 and an additional tranche of $20 million is available to be drawn down by May 2020 at BDSI's option. The loan will mature in May 2025 and bears interest at LIBOR plus 7.5 per cent., along with 2 per cent. additional consideration. As at 26 August 2019 BDSI had a market capitalisation of $384 million.

**Investment type**
Secured loan and Equity

**Date**
May 2019

**Loan amount**
**$80m**

**Equity**
**$25m**

**Company investment**
**$105m**

**Maturity**
May 2025


**On 20 September 2018, the Company entered into a definitive senior secured loan agreement for $150 million with Amicus Therapeutics, Inc (NASDAQ: FOLD), a commercial stage, rare metabolic disease-focused biopharmaceutical company ("Amicus"). The $150 million loan has a five-year maturity and is interest only for the first four years. The loan bears interest at 3-month LIBOR plus 7.5 per cent. (subject to certain caps) and includes 2 per cent. additional consideration. Amicus can prepay the loan at any time subject to a two year make-whole premium and prepayment fees.**

Amicus has commercial operations in the United States, Europe, Japan and several other geographies in which it currently markets Galafold® (migalastat HCl) for Fabry disease with sales of $91 million during 2018. As at 26 August 2019 Amicus had a market capitalisation of $2,495 million.

**Investment type**
Secured loan

**Date**
September 2018

**Loan amount**
**$150m**

**Company investment**
**$150m**

**Maturity**
28 September 2023

**Investment type**
Secured loan

**Date**
April 2018

**Loan amount**
**$316m**

**Company investment**
**$194m**

**Maturity**
1 May 2023

**On 1 May 2018, the Company was lead arranger of a $316 million senior secured term loan for Sebela BT Holdings Inc. ("Sebela"), a subsidiary of Sebela Pharmaceuticals. The Company committed to a $194 million investment, with the remaining $122 million balance coming from co-investors. The five-year senior secured loan began amortising in the third quarter of 2018 and fully matures in December 2022.**

The loan bears interest at 3-month LIBOR (un-capped) plus a single-digit spread and includes additional consideration. Sebela is a private specialty pharmaceutical company focused on gastro-intestinal medicines, dermatology, and women's health. As at 30 June 2019, the principal amount outstanding of the Company's investment was $164.8 million.

**Investment type**
Secured loan

**Date**
February 2018

**Loan amount**
**$150m**

**Company investment**
**$150m**

**Maturity**
7 February 2023

**On 7 February 2018, the Company entered into a senior secured loan agreement for $150 million with Novocure Limited (NASDAQ: NVCR), a commercial stage oncology company with a current market capitalisation of approximately $9,205 million as at 26 August 2019 ("Novocure").**

The $150 million loan will mature in February 2023 and bears interest at 9.0 per cent. per annum. Novocure used $100 million of the net proceeds to entirely prepay the $100 million, 10.0 per cent. coupon loan made by BioPharma III Holdings, LP ("BioPharma III") in 2015 that was scheduled to mature in 2020. BioPharma Credit is a limited partner in BioPharma III and therefore received a distribution of approximately $46 million from BioPharma III as a result of the prepayment from Novocure.

Novocure manufactures and sells the Optune system, a cancer treatment centered on a proprietary therapy called TTFields, which involves the use of electric fields tuned to specific frequencies to disrupt solid tumor cancer cell division. Optune is currently approved for the treatment of adults with Glioblastoma ("GBM"). On 28 February 2019, Novocure reported revenues of $248.0 million for the year ended 31 December 2018, a 40 per cent. increase over 2017. Novocure invests meaningfully in R&D and has late stage trials (Phase III pivotal studies) underway for TTFields in brain metastases, non-small cell lung cancer and pancreatic cancer.

On 23 May 2019, the FDA approved the NovoTTF-100L system in combination with chemotherapy for the treatment of malignant pleural mesothelioma. This is the first FDA approved mesothelioma treatment in over 15 years.

On 4 December 2017, the Company and BioPharma IV entered into a definitive term loan agreement for up to $200 million with Lexicon Pharmaceuticals, Inc. (NASDAQ: LXRX) ("Lexicon"), a fully integrated biopharmaceutical company with a current market capitalisation of approximately $135 million as at 26 August 2019. The Company funded $124.5 million of the $200 million first tranche and Lexicon did not draw the second tranche. Lexicon markets XERMELO® (teloristat ethyl) for the treatment of carcinoid syndrome diarrhoea in the United States and has licensed XERMELO® to Ipsen Pharma SA for commercialisation in territories outside of the United States and Japan. Lexicon is also developing Zynquista (sotagliflozin) for the treatment of Type 1 and Type 2 diabetes in partnership with Sanofi. The loan is secured by substantially all of Lexicon's assets, including its rights to XERMELO and Zynquista.

Zynquista (sotagliflozin) received approval in Europe for Type 1 diabetes on 26 April 2019 and received a Complete Response Letter ("CRL") in the US on 22 March 2019. The drug is still being evaluated for use in Type 2 patients with potential to generate $110 million in development milestones by early 2020 plus $150 million upon approval. The Type 2 diabetes market is much larger than the Type 1 market.

On 26 July 2019, Lexicon announced Sanofi's notice of termination in relation to its collaboration and license agreement with Lexicon for the development and commercialisation of Zynquista. Sanofi's actions do not impact XERMELO® which is marketed by Lexicon in the US and is partnered outside the US with Ipsen. Lexicon and Sanofi have not yet finalised the details of the termination and this process might take several weeks or months.

# Investment Manager's Report continued

On 8 December 2017, the Company's wholly-owned subsidiary entered into a purchase, sale and assignment agreement with a wholly-owned subsidiary of Royalty Pharma Investments ("RPI"), an affiliate of the Investment Manager, for the purchase of a 50 per cent. interest in a stream of payments (the "Purchased Payments") acquired by RPI's subsidiary from Bristol-Myers Squibb (NYSE: BMY) through a purchase agreement dated 14 November 2017. As a result of the arrangements, RPI's subsidiary and the Company's subsidiary are each entitled to the benefit of 50 per cent. of the Purchased Payments under identical economic terms. The Purchased Payments are linked to tiered worldwide sales of Onglyza and Farxiga, diabetes agents marketed by AstraZeneca, and related products. The Company is expected to fund $140 million to $160 million during 2018 and 2019, determined by product sales over that period, and will receive payments from 2020 through 2025. The Purchased Payments are expected to generate attractive risk-adjusted returns in the high single digits per annum. As of 30 June 2019, the Company funded five of the Purchased Payments based on sales from 1 January 2018 to 31 March 2019 for a total of $103.1 million out of the originally expected range.

On 21 November 2017, the Company and BioPharma Credit Investments IV, S.àr.L. ("BioPharma IV") entered into a definitive loan agreement for up to $500 million with Tesaro, Inc. (NASDAQ: TSRO) ("Tesaro"). The Company funded $222 million of the $300 million first tranche on 6 December 2017 and $100 million of the $200 million second tranche on 29 June 2018 for a total investment of $322 million.

The Tesaro loan had a term of seven years and was secured by Tesaro's US rights to ZEJULA®. The first $300 million tranche bore interest at LIBOR plus 8 per cent. and the second tranche bore interest at LIBOR plus 7.5 per cent. The LIBOR rate was subject to a floor of 1 per cent. and certain caps. Each tranche of the loan was interest only for the first two years, amortises over the remaining term.

Following its acquisition by GlaxoSmithKline, Tesaro repaid the $500 million loan on 23 January 2019. The Company received a payment of $370.0 million on its $322.0 million share of the loan, including the make-whole and prepayment premium totalling $45.8 million, or 14.2 per cent., of the $322.0 million investment, which is the equivalent of what the Company would have received had the loan remained outstanding for another fifteen months, approximately. The Company earned a 22.5 per cent. annualised rate of return on its Tesaro investment.

## Update on seed assets

The Company acquired $338.6 million in seed assets at the time of the IPO in March 2017, consisting of a $185.1 million investment in the RPS Note and a 46 per cent. limited partnership interest in BioPharma III, valued at $153.5 million at the time of the IPO. On 15 October 2018, the Company received its final payment on the RPS Note of $20.2 million, realising a 12.9 per cent. IRR. On 29 January 2019, the Company received $7.6 million as its final payment from BioPharma III, realising a 13.6 per cent. IRR.

## Investment outlook

The life sciences industry is expected to continue to have substantial capital needs during the coming years as the number of products undergoing clinical trials continues to grow. All else being equal, companies seeking to raise capital are generally more receptive to straight debt financing alternatives at times when equity markets are soft, increasing the number and size of fixed-income investment opportunities for the Company, and will be more inclined to issue equity or convertible bonds at times when equity markets are strong. A good indicator of the life sciences equity market is the New York Stock Exchange Biotechnology Index ("BTK Index"). While 2018 was a volatile year, with the BTK Index essentially at the same levels as it started the year, the first six months of 2019 were stronger with the BTK Index rising by 13%.

Global equity issuance by life sciences companies during the first six months of 2019 was $32.1 billion, a 16.1 per cent. increase from the $27.7 billion issued during first six months of 2018. We anticipate an increased appetite for fixed-income as a source of capital in 2019.

As a result of the downside protection embedded in the debt nature of the Company's investments, the volatility in equity prices does not affect the value or quality of the assets in the portfolio.

Acquisition financing is an important driver of capital needs in the life sciences industry in general and a source of investment opportunities. An active M&A market helps drive opportunities for investors such as the Company, as acquiring companies need capital to fund acquisitions. In fact, two of the Company's investments during 2018, Amicus and Sebela, were driven by the need to fund acquisitions. Global life sciences M&A volume during the first half of 2019 was $38.5 billion, 84.7 per cent. less than the $251.2 billion witnessed during the first half of 2018. It is widely believed that the high M&A activity in 2018 was caused by US tax reform in December 2017. We are encouraged by the number of M&A opportunities that are starting to build up and should lead to a more active market over the coming year.

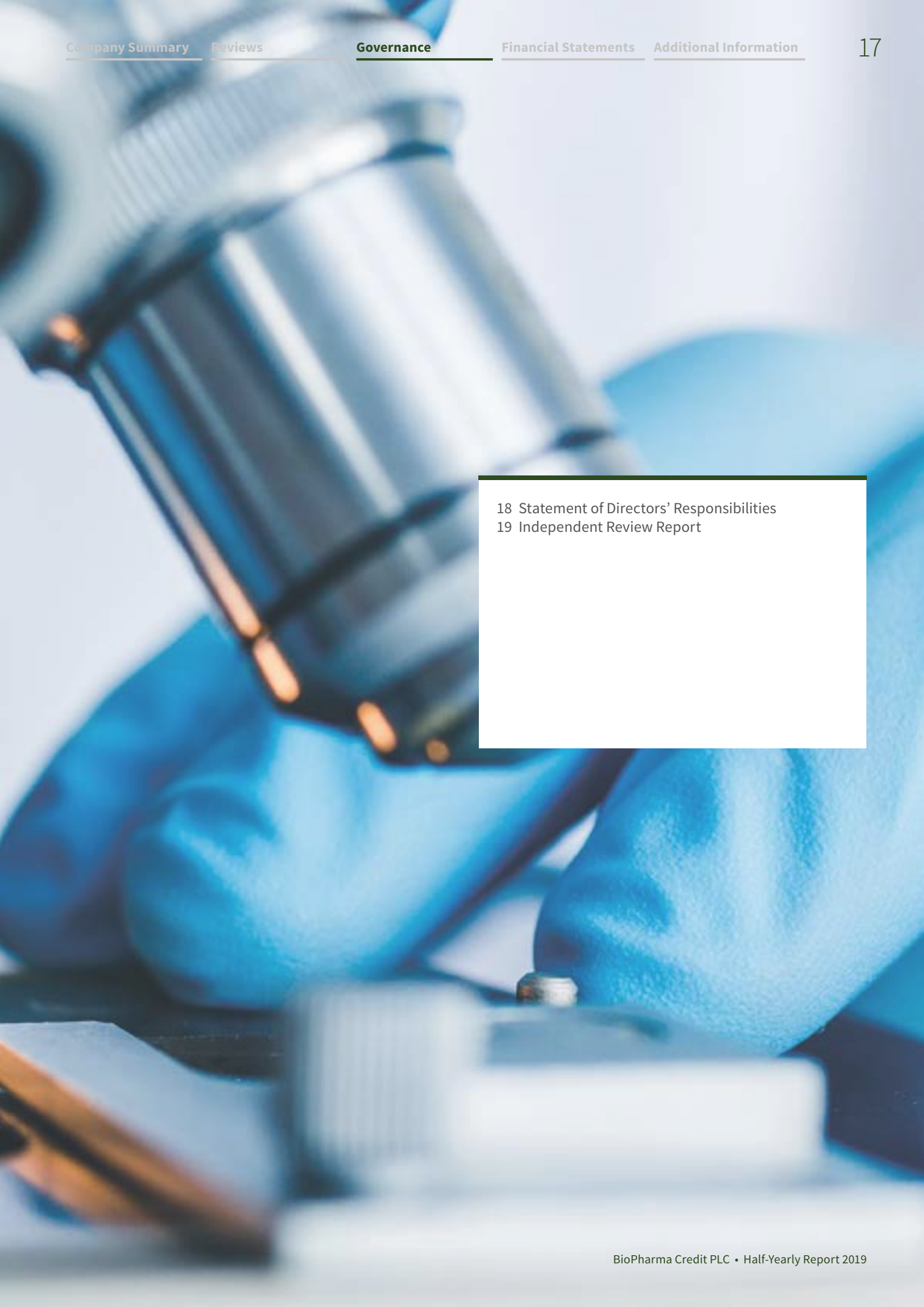
In conclusion, Pharmakon aims to deploy a majority of the cash available by the end of 2019. There continues to be a robust pipeline of investment opportunities. As usual, the timing of their execution is not completely within our control. We remain focussed on our mission of creating the premier dedicated provider of debt capital to the life sciences industry while generating attractive returns and sustainable income to investors. Further, we remain confident of our ability to deliver attractive returns that will enable the Company to pay a robust dividend yield for our investors.

**Pedro Gonzalez de Cosio**
Co-founder and CEO, Pharmakon
3 September 2019

# Portfolio Information

As at 30 June 2019

| Asset | Counterparty/Borrower | Underlying Product | Fair Value ($M) | Expected Maturity | % of Gross Assets |
|---|---|---|---|---|---|
| Lexicon senior secured loan | Lexicon | XERMELO® and sotagliflozin | 124.5 | 2022 | 9% |
| Novocure senior secured loan | Novocure | Optune | 150.0 | 2023 | 11% |
| Sebela senior secured loan | Sebela | SUPREP | 164.8 | 2022 | 12% |
| BMS purchased payments | Bristol-Myers | Onglyza and Farxiga | 103.0 | 2026 | 7% |
| Amicus senior secured loan | Amicus | Galafold | 150.0 | 2023 | 11% |
| BioDelivery Sciences senior secured loan and equity | BioDelivery Sciences | BELBUCA and Symproic | 83.3 | 2025 | 6% |
| Convertible bonds | Undisclosed | Undisclosed | 21.3 | | 2% |
| **Total investments** | | | **$796.9** | | **57%** |
| Cash and cash equivalents | | | 612.9 | | 43% |
| Other net assets | | | (0.4) | | 0% |
| **Gross assets** | | | **$1,409.4** | | **100%** |



# Statement of Directors' Responsibilities

## Interim management report

The important events that have occurred during the period under review, the key factors influencing the financial statements and the principal factors that could impact the remaining six months of the financial year are set out in the Chairman's statement and the Investment Manager's report on pages 6 to 14.

The Directors consider that the principal risks facing the Company are substantially unchanged since the date of the annual report for the year ended 31 December 2018 and expect that, for the remainder of the year ending 31 December 2019, these will continue to be as set out on pages 20 to 23 of that report.

Risks faced by the Company include, but are not limited to:

- Failure to achieve target returns;
- The success of the Company depends on the ability and expertise of the Investment Manager;
- The Company may from time to time commit to make future investments that exceed the Company's current liquidity;
- The Investment Manager's ability to source and advise appropriately on investments;
- There can be no assurance that the Board will be able to find a replacement investment manager if the Investment Manager resigns;
- Concentration in the Company's portfolio may affect the Company's ability to achieve its investment objective;
- Life sciences products are subject to intense competition and various other risks;
- Investments in debt obligations are subject to credit and interest rate risks;
- Counterparty risk;
- Sales of life sciences products are subject to regulatory actions that could harm the Company's ability to make distributions to investors;
- Net asset values published will be estimates only and may differ materially from actual results; and
- Changes in taxation legislation or practice may adversely affect the Company and the tax treatment for shareholders investing in the Company.

## Going Concern

The financial statements continue to be prepared on a going concern basis. The Directors have reviewed areas of potential financial risk and cash flow forecasts. No material uncertainties have been detected which would influence the Company's ability to continue as a going concern for a period of not less than 12 months. Accordingly, the Board of Directors continue to adopt the going concern basis in preparing the financial statements.

## Directors' Responsibility Statement

The Directors confirm that to the best of their knowledge:

- this set of condensed financial statements has been prepared in accordance with International Accounting Standard ("IAS") 34, 'Interim Financial Reporting', as adopted by the European Union ("EU"); and gives a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- this Half-Yearly Report includes a fair review of the information required by:
  a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place during the first six months of the financial year and that have materially affected the financial position or performance of the Company during that period; and any changes in the related party transactions that could do so.

This Half-Yearly Report was approved by the Board of Directors on 3 September 2019 and the above responsibility statement was signed on its behalf by Jeremy Sillem, Chairman.

On behalf of the Board

**Jeremy Sillem**
Chairman
3 September 2019

# Independent Review Report

## Report on the Half-Yearly Report

### Our conclusion

We have reviewed BioPharma Credit Plc's Half-Yearly Report (the "interim financial statements") in the half-yearly report of BioPharma Credit Plc for the 6 month period ended 30 June 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

### What we have reviewed

The interim financial statements comprise:

- the Condensed Statement of Financial Position as at 30 June 2019;
- the Condensed Statement of Comprehensive Income for the period then ended;
- the Condensed Cash Flow Statement for the period then ended;
- the Condensed Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the half-yearly report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Company is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

## Responsibilities for the interim financial statements and the review

### Our responsibilities and those of the directors

The half-yearly report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the half-yearly report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

**PricewaterhouseCoopers LLP**
Chartered Accountants
London
3 September 2019

# Condensed Statement of Comprehensive Income

For the period ended 30 June 2019
(In $000s except per share amounts)

| | | Period ended 30 June 2019 (Unaudited) | | | Period ended 30 June 2018 (Unaudited) | | |
|---|---|---|---|---|---|---|---|
| | Note | Revenue | Capital | Total | Revenue | Capital | Total |
| **Income** | | | | | | | |
| Investment income | 3 | 73,145 | – | 73,145 | 37,726 | – | 37,726 |
| Other income | 3 | 17,046 | – | 17,046 | 2,438 | – | 2,438 |
| Net (losses)/gains on investments at fair value | 7 | – | (3,366) | (3,366) | – | 2,014 | 2,014 |
| Currency exchange losses | | – | (6) | (6) | – | (16) | (16) |
| **Total income** | | **90,191** | **(3,372)** | **86,819** | **40,164** | **1,998** | **42,162** |
| **Expenses** | | | | | | | |
| Management fee | 4 | (7,053) | – | (7,053) | (4,852) | – | (4,852) |
| Directors' fees | 4 | (191) | – | (191) | (163) | – | (163) |
| Other expenses | 4 | 407 | (48) | 359 | (1,390) | (112) | (1,502) |
| **Total expenses** | 4 | **(6,837)** | **(48)** | **(6,885)** | **(6,405)** | **(112)** | **(6,517)** |
| **Return on ordinary activities before finance costs and taxation** | | **83,354** | **(3,420)** | **79,934** | **33,759** | **1,886** | **35,645** |
| Finance costs – general | | – | – | – | (2) | – | (2) |
| Finance costs – C share amortisation | | – | – | – | (451) | (23) | (474) |
| **Return on ordinary activities after finance costs and before taxation** | | **83,354** | **(3,420)** | **79,934** | **33,306** | **1,863** | **35,169** |
| Taxation on ordinary activities | 5 | – | – | – | – | – | – |
| **Return on ordinary activities after finance costs and taxation** | | **83,354** | **(3,420)** | **79,934** | **33,306** | **1,863** | **35,169** |
| **Net revenue and capital return per ordinary share (basic and diluted)** | 11 | **$0.0607** | **($0.0025)** | **$0.0582** | **$0.0364** | **$0.0020** | **$0.0384** |

The total column of this statement is the Company's Statement of Comprehensive Income prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the EU. The supplementary revenue and capital columns are presented for information purposes as recommended by the Statement of Recommended Practice ("SORP") issued by the Association of Investment Companies ("AIC").

All items in the above Statement derive from continuing operations.

There is no other comprehensive income, and therefore the return on ordinary activities after finance costs and taxation is also the total comprehensive income.

The notes on pages 26 to 42 form part of these financial statements.

# Condensed Statement of Financial Position

As at 30 June 2019
(In $000s except per share amounts)

| | Note | 30 June 2019 (Unaudited) | 31 December 2018 (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments at fair value through profit or loss | 7 | 796,950 | 1,007,265 |
| Unlisted floating interest income receivable | 8 | 4,049 | 988 |
| | | 800,999 | 1,008,253 |
| **Current assets** | | | |
| Trade and other receivables | 8 | 7,241 | 21,448 |
| Cash and cash equivalents | 9 | 612,888 | 363,572 |
| | | **620,129** | **385,020** |
| **Total assets** | | **1,421,128** | **1,393,273** |
| **Current liabilities** | | | |
| Trade and other payables | 10 | 3,904 | 5,457 |
| **Total current liabilities** | | **3,904** | **5,457** |
| **Total assets less current liabilities** | | **1,417,224** | **1,387,816** |
| **Non-current liabilities** | | | |
| Deferred performance fee | | 7,794 | 7,794 |
| **Net assets** | | **1,409,430** | **1,380,022** |
| **Represented by:** | | | |
| Share capital | 14 | 13,739 | 13,739 |
| Share premium account | | 607,125 | 607,125 |
| Special distributable reserve | | 706,587 | 734,309 |
| Capital reserve | | (1,375) | 2,045 |
| Revenue reserve | | 83,354 | 22,804 |
| **Total equity attributable to ordinary shareholders of the Company** | | **1,409,430** | **1,380,022** |
| **Net asset value per ordinary share (basic and diluted)** | 12 | **$1.0258** | **$1.0044** |

The financial statements of BioPharma Credit PLC registered number 10443190 were approved and authorised for issue by the Board of Directors on 3 September 2019 and signed on its behalf by:

**Jeremy Sillem**
Chairman

The notes on pages 26 to 42 form part of these financial statements.

# Condensed Statement of Changes in Equity

For the period ended 30 June 2019
(In $000s)

| For the period ended 30 June 2019 (Unaudited) | Note | Share capital | Share premium account | Special distributable reserve* | Capital reserve* | Revenue reserve* | Total equity attributable to shareholders of the Company |
|---|---|---|---|---|---|---|---|
| Net assets attributable to shareholders at 1 January 2019 | | 13,739 | 607,125 | 734,309 | 2,045 | 22,804 | 1,380,022 |
| Return on ordinary activities after finance costs and taxation | | – | – | – | (3,420) | 83,354 | 79,934 |
| Dividends paid | 6 | – | – | (27,722) | – | (22,804) | (50,526) |
| **Net assets attributable to shareholders at 30 June 2019** | | **13,739** | **607,125** | **706,587** | **(1,375)** | **83,354** | **1,409,430** |

| For the period ended 30 June 2018 (Unaudited) | Note | Share capital | Share premium account | Special distributable reserve* | Capital reserve* | Revenue reserve* | Total equity attributable to shareholders of the Company |
|---|---|---|---|---|---|---|---|
| Net assets attributable to shareholders at 1 January 2018 | | 9,143 | 150,379 | 734,356 | 1,845 | 26,851 | 922,574 |
| Share issue costs | | – | (2) | – | – | – | (2) |
| Return on ordinary activities after finance costs and taxation | | – | – | – | 1,863 | 33,306 | 35,169 |
| Dividends paid | 6 | – | – | (47) | – | (39,157) | (39,204) |
| **Net assets attributable to shareholders at 30 June 2018** | | **9,143** | **150,377** | **734,309** | **3,708** | **21,000** | **918,537** |

* The special distributable reserve and revenue reserves can be distributed in the form of dividends. The capital reserve is not used for distributions.

The notes on pages 26 to 42 form part of these financial statements.

# Condensed Cash Flow Statement

For the period ended 30 June 2019
(In $000s)

| | Note | Period ended 30 June 2019 (Unaudited) | Period ended 30 June 2018 (Unaudited) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Investment income received | | 94,208 | 37,890 |
| Other income received | | 6,614 | 2,547 |
| Investment management fee paid | | (6,737) | (4,276) |
| Finance costs paid | | (3) | (5) |
| Other expenses paid | | (1,649) | (1,973) |
| Cash generated from operations | 16 | 92,433 | 34,183 |
| **Net cash flow generated from operating activities** | | **92,433** | **34,183** |
| **Cash flow from investing activities** | | | |
| Purchase of investments | | (145,786) | (464,265) |
| Redemptions of investments | | 352,735 | 108,065 |
| **Net cash flow generated from/(used in) investing activities** | | **206,949** | **(356,200)** |
| **Cash flow from financing activities** | | | |
| Ordinary Share issue costs | | 466 | (328) |
| Dividends paid to Ordinary shareholders | 6 | (50,526) | (39,204) |
| Gross proceeds of C share issue | 13 | – | 163,782 |
| C share issue costs | | – | (3,845) |
| **Net cash flow (used in)/generated from financing activities** | | **(50,060)** | **120,405** |
| **Increase/(decrease) in cash and cash equivalents for the period** | | **249,322** | **(201,612)** |
| Cash and cash equivalents at start of period | 9 | 363,572 | 350,822 |
| Revaluation of foreign currency balances | | (6) | (16) |
| **Cash and cash equivalents at end of period** | 9 | **612,888** | **149,194** |

The notes on pages 26 to 42 form part of these financial statements.

# Notes to the Financial Statements

For the period ended 30 June 2019

## 1. General information

BioPharma Credit PLC is a closed-ended investment company incorporated and domiciled in England and Wales on 24 October 2016 with registered number 10443190. The registered office of the Company is Beaufort House, 51 New North Road, Exeter, EX4 4EP. On 6 February 2017 the Company changed its name from PRECIS (2772) PLC.

The Company carries on business as an investment trust company within the meaning of Sections 1158/1159 of the Corporation Tax Act 2010.

The Company's Investment Manager is Pharmakon Advisors L.P. ("Pharmakon"). Pharmakon is a limited partnership established under the laws of the State of Delaware. It is registered as an investment adviser with the Securities and Exchange Commission ("SEC") under the United States Investment Advisers Act of 1940, as amended.

Pharmakon is authorised as an Alternative Investment Fund Manager ("AIFM") under the Alternative Investment Fund Managers Directive ("AIFMD").

## 2. Accounting policies

### a) Basis of preparation

The Company's condensed half-year financial statements covers the period from 1 January 2019 to 30 June 2019 and have been prepared in conformity with IAS 34 'Interim Financial Reporting'. They do not include all financial information required for full annual financial statements and have been prepared using the accounting policies adopted in the audited financial statements for the year ended 31 December 2018. The Company's annual financial statements were prepared in conformity with IFRS as adopted by the EU, which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and as applied in accordance with the Disclosure Guidance Transparency Rules sourcebook of the Financial Conduct Authority (FCA) and the AIC SORP (issued in November 2014, updated in February 2018 with consequential amendments) for the financial statements of investment trust companies and venture capital trusts, except to any extent where it is not consistent with the requirements of IFRS. The financial statements have adopted the following accounting policies in their preparation, which remain consistent with the accounting policies adopted in the audited financial statements for the year ended 31 December 2018.

The financial statements are presented in US dollars, being the functional currency of the Company. The financial statements have been prepared on a going concern basis under historical cost convention, except for the measurement at fair value of investments measured at fair value through profit or loss.

The Company's condensed half-year information contained in this Half-Yearly Report does not constitute full statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information for the periods ended 30 June 2019 and 30 June 2018 is not a financial year and has not been audited. The information for the year ended 31 December 2018 has been extracted from the latest published financial statements, which have been delivered to the Registrar of Companies. The Auditor's Report on those financial statements contained no qualification or statement under Section 498 of the Companies Act 2006.

### Assessment as an investment entity

Entities that meet the definition of an investment entity within IFRS 10 'Consolidated Financial Statements' are required to measure their subsidiaries at fair value through profit or loss rather than consolidate the entities. The criteria which define an investment entity are as follows:

- an entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- an entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- an entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Directors have concluded that the Company meets the characteristics of an investment entity, in that it has more than one investor and its investors are not related parties and it holds a portfolio of investments, predominantly in the form of loans which generates returns through interest income. All investments, including its subsidiary BPCR Ongdapa Limited, are reported at fair value to the extent allowed by IFRS.

### b) Presentation of Condensed Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Condensed Statement of Comprehensive Income between items of a revenue and capital nature has been prepared alongside the Income Statement.

# Notes to the Financial Statements continued

For the period ended 30 June 2019

## 2. Accounting policies continued

### c) Segmental reporting

The Directors are of the opinion that the Company has one operating and reportable segment being the investment in debt assets secured by royalties or other cash flows derived from the sales of approved life sciences products.

### d) Investments at fair value through profit or loss

The principal activity of the Company is to invest in interest-bearing debt assets with a contractual right to future cash flows derived from royalties or sales of approved life sciences products. In accordance with IFRS, the assets are measured at fair value through profit or loss. They are accounted for on their trade date at fair value, which is the cost of the investment. The fair value of the asset reflects any contractual amortising balance and accrued interest.

For unlisted investments where the market for a financial instrument is not active, fair value is established using valuation techniques which may include recent arm's length market transactions between knowledgeable, willing parties, if available; reference to the current fair value of another instrument that is substantially the same; and discounted cash flow analysis and option pricing models. Where there is a valuation technique commonly used by market participants to price the instrument and that technique has proved reliable from estimates of prices obtained in actual market transactions, that technique is utilised.

The fair value is either bid price or the last traded price on the exchange where the investment is listed.

Changes in the fair value of investments held at fair value through profit or loss and gains or losses on disposal are recognised in the Condensed Statement of Comprehensive Income as gains or losses from investments held at fair value through profit or loss. Transaction costs incurred on the purchase and disposal of investments are included within the cost or deducted from the proceeds of the investments. All purchases and sales are accounted for on trade date.

### e) C Share financial liability

Any C Share issue that meets the definition of a financial liability under IAS 32 'Financial Instruments: Presentation', rather than an equity instrument, will be recognised on issue at fair value less directly attributable issuance costs. For details regarding previously held C Shares converted on 29 October 2018 see note 13.

### f) Foreign currency

Transactions denominated in currencies other than US dollars are recorded at the rates of exchange prevailing on the date of the transaction. Items which are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the Condensed Statement of Comprehensive Income.

### g) Income

There are three main sources of revenue for the Company: interest income, royalty revenue and dividends.

Interest income is recognised when it is probable that the economic benefits will flow to the Company. Interest is accrued on a time basis, by reference to the principal outstanding and the effective interest rate that is applicable. Accrued interest is included within trade and other receivables on the Condensed Statement of Financial Position.

Any accrued income is reflected in the fair value of the Company's limited partnership interest, and is allocated to capital within the Condensed Statement of Comprehensive Income until the Company's right to receive the income is established, when it is transferred to revenue within the Condensed Statement of Comprehensive Income.

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably). Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

Dividends are receivable on equity shares and recognised on the ex-dividend date. Where no ex-dividend date is quoted, dividends are recognised when the Company's right to receive payment is established. Dividends from investments in unquoted shares and securities are recognised when they become receivable.

Some investments include additional consideration in the form of structuring fees, which are paid on completion of the transaction. Such fees are recognised up front and are allocated to revenue within the Condensed Statement of Comprehensive Income.

Bank interest and other interest receivable are accounted for on an accruals basis.

# Notes to the Financial Statements continued

For the period ended 30 June 2019

## 2. Accounting policies continued

### h) Dividends paid to shareholders

Dividends to shareholders are recognised as a liability in the period in which they are paid or approved by the Board and are taken to the Condensed Statement of Changes in Equity. Dividends declared and approved after the balance sheet date are not recognised as a liability of the Company at the balance sheet date.

The Company may, if it so chooses, designate as an ''interest distribution'' all or part of the amount it distributes to shareholders as dividends, to the extent that it has ''qualifying interest income'' for the accounting period. Were the Company to designate any dividend it pays in this manner, it should be able to deduct such interest distributions from its income in calculating its taxable profit for the relevant accounting period. The Company intends to elect for the ''streaming'' regime to apply to the dividend payments it makes to the extent that it has such ''qualifying interest income''. Shareholders in receipt of such a dividend will be treated for UK tax purposes as though they had received a payment of interest, which results in a reduction of the corporation tax payable by the Company.

### i) Expenses

All expenses are accounted for on an accruals basis. Expenses, including investment management fees, performance fees and finance costs, are charged through the revenue account except as follows:

- expenses which are incidental to the acquisition or disposal of an investment are treated as capital costs and separately identified and disclosed in Note 4; and
- expenses of a capital nature are accounted for through the capital account.

The performance fee is considered to be an annual fee and is only recognised at the end of each performance period. It is calculated in accordance with the details in note 4(b) below. Any performance fee triggered, whether payable or deferred, is recognised in the Statement of Comprehensive Income. Where a performance fee is payable, it is treated as a current liability in the Statement of Financial Position. Where a performance fee is deferred, it is treated as a non-current liability in the Statement of Financial Position. It becomes payable to the Investment Manager at the end of the first performance period in respect to which the compounding condition is satisfied.

### j) Trade and other receivables

Trade and other receivables do not carry any interest and are measured at fair value through profit and loss and reduced by appropriate allowances for estimated unrecoverable amounts, where necessary.

### k) Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits, and short-term, highly-liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

### l) Trade and other payables

Trade and other payables do not carry any interest and are measured at fair value through profit and loss.

### m) Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Corporation tax is recognised in the Condensed Statement of Comprehensive Income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous periods. The tax effect of different items of expenditure is allocated between revenue and capital on the same basis as the particular item to which it relates, using the Company's marginal method of tax, as applied to those items allocated to revenue, for the accounting period.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax basis of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

# Notes to the Financial Statements continued

For the period ended 30 June 2019

## 2. Accounting policies continued

### n) Share capital and reserves

The share capital represents the nominal value of the Company's equity shares.

The share premium account represents the excess over nominal value of the fair value of consideration received for the Company's equity shares, net of expenses of the share issue.

The special distributable reserve was created on 29 June 2017 to give the possibility or option of the Company to buy back its own shares and pay dividends out of such distributable reserve, in each case when the Directors consider it appropriate to do so, and for other corporate purposes.

The capital reserve represents realised and unrealised capital and exchange gains and losses on the disposal and revaluation of investments and of foreign currency items. The realised capital reserve can be used for the repurchase of shares.

The revenue reserve represents retained profits from the income derived from holding investment assets less the costs associated with running the Company. This reserve can be distributed.

### o) Critical accounting estimates and assumptions

The preparation of these financial statements in conformity with IFRS requires the Directors to make accounting estimates which will not always equal the actual results. The Directors also need to exercise judgement in applying the Company's accounting policies.

This note provides an overview of the areas that involve a higher degree of judgement or complexity and of items which are more likely to be materially adjusted due to estimates and judgements included in other notes, together with information about the basis of calculation for each line in the financial statements.

In particular, judgements and estimates are made in the determining the fair valuation of unquoted investments for which there is no observable market and may cause material adjustments to the carrying value of those investments. These are valued in accordance with note 2(d) above and using the valuation techniques described in note 7 below.

Also, judgements are made when determining any deferred performance fee, this may be affected by future changes in the Company's portfolio and other assets and liabilities. Any deferred performance fee is calculated in accordance with note 4(b) below and is recognised in accordance with note 2(i) above.

These judgements and estimates are reviewed on an ongoing basis. Revisions to these judgements and estimates are reviewed on an ongoing basis. Revisions are recognised prospectively.

### p) New accounting standards effective 1 January 2019

#### Amendments to IFRS 9 'Financial Instruments'

The Directors have considered the implications of the amendments to IFRS 9 and are of the opinion the Company's investments are already measured at fair value. Therefore, there has been no impact on the current and comparative financial statements for this accounting standard.

#### IFRS 16 'Leases'

The Directors have considered the implications of the amendments to IFRS 16 and are of the opinion there is no impact to the Company as it does not have leases. Therefore, there has been no impact on the current and comparative financial statements for this accounting standard.

### q) Accounting standards not yet effective

IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued and endorsed the following standards and interpretations, applicable to the Company, which are not yet effective for the period ended 30 June 2019 and have therefore not been applied in preparing these financial statements.

Amendment to IFRS 3 'Business Combinations' – aims to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets, and is effective for reporting periods beginning on or after 1 January 2020.

The Directors do not expect that the adoption of the standards and interpretations will have a material impact on the financial statements in the period of initial application.

Other future development includes the IASB undertaking a comprehensive review of existing IFRSs. The Company will consider the financial impact of these new standards as they are finalised.

# Notes to the Financial Statements continued

For the period ended 30 June 2019

## 3. Income

| | Period ended 30 June 2019 $000 | Period ended 30 June 2018 $000 |
|---|---|---|
| **Income from investments** | | |
| US unfranked investment income from BioPharma III | 844 | 2,970 |
| US unfranked investment income from BPCR Ongdapa | 4,133 | – |
| US fixed interest investment income | 12,397 | 15,460 |
| US floating interest investment income | 19,669 | 14,383 |
| US make whole interest investment income | 36,102 | – |
| Additional consideration received* | 1,200 | 4,913 |
| | 74,345 | 37,726 |
| **Other income** | | |
| Prepayment premium | 9,660 | – |
| Interest income from liquidity/money market funds | 3,539 | 2,075 |
| Interest income from US treasury bonds | 2,628 | – |
| Interest income from fixed term deposits | – | 357 |
| Other interest | 19 | 6 |
| | 15,846 | 2,438 |
| **Total income** | **90,191** | **40,164** |

* The Company's senior secured term loan to Biodelivery Services included additional consideration in the form of structuring fees of $1,200,000, which was paid upon the completion of the transaction and recognised as income in the period (period to 30 June 2018: The Company's senior secured term loan to Sebela and the second tranche of its senior secured loan to Tesaro included additional consideration in the form of structuring fees of $2,912,691 and $2,000,000, respectively, which were paid upon the completion of the transaction or funding, in respect of the second tranche of the Tesaro loan, and are recognised as income in the period).

## 4. Fees and Expenses

### Expenses

| | Period ended 30 June 2019 | | | Period ended 30 June 2018 | | |
|---|---|---|---|---|---|---|
| | Revenue $000 | Capital $000 | Total $000 | Revenue $000 | Capital $000 | Total $000 |
| Management fee (note 4a) | 7,053 | – | 7,053 | 4,852 | – | 4,852 |
| Directors' fees (note 4c) | 191 | – | 191 | 163 | – | 163 |
| **Other expenses** | | | | | | |
| Company Secretarial fee | 44 | – | 44 | 41 | – | 41 |
| Administration fee | 62 | – | 62 | 58 | – | 58 |
| Legal & professional fees | (1,029) | – | (1,029) | 682 | 112 | 794 |
| Public relations fees | 96 | – | 96 | 128 | – | 128 |
| Auditor's remuneration – statutory audit | 167 | – | 167 | 88 | – | 88 |
| Auditor's remuneration – other audit related services - Half-year review | 37 | – | 37 | 120 | – | 120 |
| Other expenses | 216 | 48 | 264 | 273 | – | 273 |
| | (407) | 48 | (359) | 1,390 | 112 | 1,502 |
| **Total expenses** | **6,837** | **48** | **6,885** | **6,405** | **112** | **6,517** |

The Auditors were paid $250,000 for services performed in connection with the C share issue for the period ended 30 June 2018. There were no similar costs incurred in 2019. This amount was not included within the Auditor's remuneration figures above, as it was recognised as part of the C Share issue costs within the C Share figure within the Condensed Statement of Financial Position.

The negative balance of legal fees in the current period relates to the reversal of an accrual for legal work carried out in relation to a potential revolving credit facility. Following a negotiation of the fee subsequent to the year end, the amount paid in respect of the services was revised down from $1,658,000 to $500,000.

# Notes to the Financial Statements continued

For the period ended 30 June 2019

## 4. Fees and Expenses continued

### a) Investment management fee

With effect from the Initial Admission, the Investment Manager is entitled to a management fee (''Management Fee'') calculated on the following basis: 1/12 of 1 per cent. of the NAV on the last business day of the month in respect of which the Management Fee is to be paid (calculated before deducting any accrued Management Fee in respect of such month) minus 1/12 of $100,000.

The Management Fee payable in respect of any quarter will be reduced by an amount equal to the Company's pro rata share of any transaction fees, topping fees, break-up fees, investment banking fees, closing fees, consulting fees or other similar fees which the Investment Manager (or an affiliate) receives in connection with transactions involving investments of the Company (''Transaction Fees''). The Company's pro rata share of any Transaction Fees will be in proportion to the Company's economic interest in the investment(s) to which such Transaction Fees relate.

### b) Performance fee

Subject to (i) the NAV per ordinary share as at the end of a performance period representing an increase of at least 6 per cent. per annum compounded on the Company's IPO share issue price, (ii) the total return on the ordinary shares exceeding 6 per cent. over such performance period, and (iii) to a high watermark, the Investment Manager will be entitled to receive a performance fee equating to 10 per cent. of the total return over such performance period on the basis of catch up arrangements whereby the Investment Manager will receive 50 per cent. of the total return above 6 per cent. (the "Excess Total Return") up to the point at which it has received 10 per cent. of the overall total return allocated in this manner, and thereafter 10 per cent. of the remaining Excess Total Return, provided always that the amount of any performance fee payable to the Investment Manager will be reduced to the extent necessary to ensure that, after account is taken of such fee, the net total return on the shares in respect of the relevant performance period is at least 6 per cent.

The Performance Fee for a Performance Period shall be paid as soon as practicable after the end of the relevant Performance Period and, in any event, within three calendar months of the end of such Performance Period.

If, during the last month of a Performance Period, the shares have, on average, traded at a discount of 1 per cent. or more to the NAV per share (calculated by comparing the middle market quotation of the shares at the end of each business day in the month to the prevailing published NAV per share (exclusive of any dividend declared) as at the end of such business day and averaging this comparative figure over the month), the Investment Manager shall (or shall procure that its Associate does) apply 50 per cent. of any Performance Fee paid by the Company to the Investment Manager (or its Associate) in respect of that Performance Period (net of all taxes and charges applicable to such portion of the Performance Fee) to make market acquisitions of shares (the ''Performance Shares'') as soon as practicable following the payment of the Performance Fee by the Company to the Investment Manager (or its Associate) and at least until such time as the shares have, on average, traded at a discount of less than 1 per cent. to the NAV per share over a period of five business days (calculated by comparing the middle market quotation of the shares at the end of each such business day to the prevailing published NAV per share (exclusive of any dividend declared) and averaging this comparative figure over the period of five business days). The Investment Manager's obligation:

1) shall not apply to the extent that the acquisition of the Performance Shares would require the Investment Manager to make a mandatory bid under Rule 9 of the Takeover Code; and

2) shall expire at the end of the Performance Period which immediately follows the Performance Period to which the obligation relates.

During the period to 30 June 2019, no performance fee was payable (2018: nil).

### c) Directors fee

Each of the Directors is entitled to receive a fee from the Company at such rate as may be determined in accordance with the Articles. The Directors' remuneration is $70,000 per annum for each Director other than:

- the Chairman, who receives an additional $30,000 per annum; and
- the Chairman of the Audit and Risk Committee, who receives an additional $15,000 per annum.

# Notes to the Financial Statements continued

For the period ended 30 June 2019

## 5. Taxation

It is the intention of the Directors to conduct the affairs of the Company so as to satisfy the conditions for approval of the Company by HMRC as an investment trust under Section 1158 of the Corporation Tax Act 2010 (as amended) and pursuant to regulations made under Section 1159 of the Corporation Tax Act 2010. As an investment trust, the Company is exempt from corporation tax on capital gains.

The current taxation charge for the period is different from the standard rate of corporation tax in the UK of 19.00 per cent. The effective tax rate was 0.00 per cent. The differences are explained below.

| | Period ended 30 June 2019 | | | Period ended 30 June 2018 | | |
|---|---|---|---|---|---|---|
| | Revenue $000 | Capital $000 | Total $000 | Revenue $000 | Capital $000 | Total $000 |
| Total return on ordinary activities before taxation | 83,354 | (3,420) | 79,934 | 33,306 | 1,863 | 35,169 |
| Theoretical tax at UK Corporation tax rate of 19.00 (30 June 2018: 19.00% )* | 15,837 | (650) | 15,187 | 6,328 | 354 | 6,682 |
| Effects of: | | | | | | |
| Capital items that are not taxable | – | 650 | 650 | – | (354) | (354) |
| Tax deductible interest distributions | (15,837) | – | (15,837) | (6,328) | – | (6,328) |
| **Actual tax charge** | **–** | **–** | **–** | – | – | – |

* The theoretical tax rate is calculated using a blended tax rate over the period.

At 30 June 2019, the Company had no unprovided deferred tax liabilities. At that date, based on current estimates and including the accumulation of net allowable losses, the Company had no unrelieved losses.

Deferred tax is not provided on capital gains and losses arising on the revaluation or disposal of investments because the Company meets (and intends to continue for the foreseeable future to meet) the conditions for approval as an Investment Trust company.

## 6. Dividends

Dividends paid in respect of the period under review:

| | Period ended 30 June 2019 | | | Period ended 30 June 2018 | | |
|---|---|---|---|---|---|---|
| | Revenue $000 | Capital* $000 | Total $000 | Revenue $000 | Capital* $000 | Total $000 |
| In respect of the current period: | | | | | | |
| First interim dividend of $0.0175 per Ordinary share (2018: $0.134 per Ordinary share) | – | 24,044 | 24,044 | 12,306 | – | 12,306 |
| In respect of the previous period ended 31 December 2018: | | | | | | |
| Fourth interim dividend of $0.0175 per Ordinary share | 22,804 | 1,240 | 24,044 | – | – | – |
| Second special dividend of $0.00177441 per Ordinary share | - | 2,438 | 2,438 | – | – | – |
| In respect of the previous period ended 31 December 2017: | | | | | | |
| Second interim dividend of $0.01 per Ordinary share | – | – | – | 7,572 | 47 | 7,619 |
| Third interim dividend of $0.01 per Ordinary share | – | – | – | 9,143 | – | 9,143 |
| Special dividend of $0.011 per Ordinary share | – | – | – | 10,136 | – | 10,136 |
| | **22,804** | **27,722** | **50,526** | **39,157** | **47** | **39,204** |

* Dividends paid out of capital are from the special distributable reserve. The capital reserve is not used for distributions.

# Notes to the Financial Statements continued

For the period ended 30 June 2019

## 7. Investments at fair value through Profit and Loss

| | As at 30 June 2019 $000 | As at 31 December 2018 $000 |
|---|---|---|
| **Investment portfolio summary** | | |
| Listed investments at fair value through profit and loss | 23,300 | – |
| Listed fixed interest investments through profit and loss | 21,338 | – |
| Unlisted investments at fair value through profit and loss | – | 7,645 |
| Unlisted fixed interest investments at fair value through profit and loss | 274,500 | 274,500 |
| Unlisted floating interest investments at fair value through profit and loss | 477,812 | 725,120 |
| **Closing fair value at the end of the period** | **796,950** | **1,007,265** |

| | Period ended 30 June 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Listed investments $000 | Listed fixed interest investments $000 | Unlisted investments $000 | Unlisted fixed interest investments $000 | Unlisted floating interest investments $000 | Total $000 |
| **Investment portfolio summary** | | | | | | |
| Opening cost at beginning of period | – | – | 6,805 | 274,500 | 725,320 | 1,006,625 |
| Opening unrealised appreciation/(depreciation) at beginning of period | – | – | 840 | – | (200) | 640 |
| Opening fair value at beginning of period | – | – | 7,645 | 274,500 | 725,120 | 1,007,265 |
| Movements in the period: | | | | | | |
| Purchases at cost | 25,000 | 22,064 | – | – | 98,722 | 145,786 |
| Redemption proceeds | – | – | (6,805) | – | (345,930) | (352,735) |
| Unrealised appreciation/(depreciation) | (1,700) | (726) | (840) | – | (100) | (3,366) |
| **Closing fair value at the end of the period** | **23,300** | **–** | **–** | **274,500** | **477,812** | **775,612** |
| Closing cost at end of period | 25,000 | 22,064 | – | 274,500 | 478,112 | 799,676 |
| Closing unrealised depreciation at end of period | (1,700) | (726) | – | – | (300) | (2,726) |
| **Closing fair value at the end of the period** | **23,300** | **21,338** | **–** | **274,500** | **477,812** | **796,950** |

| | Period ended 30 June 2019 $000 | Period ended 30 June 2018 $000 |
|---|---|---|
| Unrealised (depreciation)/appreciation | (3,366) | 2,014 |
| | **(3,366)** | **2,014** |

Transaction costs (incurred at the point of the transaction) incidental to the acquisition of investments totalled $nil (30 June 2018: $nil) and to the disposals of investments totalled $nil (30 June 2018: $nil) for the period. In addition, legal fees incidental to the acquisition of investments totalled $48,000 (30 June 2018: $112,000 and 31 December 2018: $193,000) as disclosed in Note 4, and have been taken to the capital column in the Condensed Statement of Comprehensive Income since they are capital in nature.

The Company is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following three levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# Notes to the Financial Statements continued

For the period ended 30 June 2019

## 7. Investments at fair value through Profit and Loss continued

The level of the fair value hierarchy, within which the fair value measurement is categorised, is determined on the basis of the lowest level input that is significant to the fair value of the investment.

| | As at 30 June 2019 | | | |
|---|---|---|---|---|
| Financial assets | Total $000 | Level 1 $000 | Level 2 $000 | Level 3 $000 |
| **Investment portfolio summary** | | | | |
| Listed investments at fair value through profit and loss | 23,300 | 23,300 | – | – |
| Listed fixed interest at fair value through profit and loss | 21,338 | 21,338 | – | – |
| Unlisted fixed interest investments at fair value through profit and loss | 274,500 | – | – | 274,500 |
| Unlisted floating interest investments at fair value through profit and loss | 477,812 | – | – | 477,812 |
| | 796,950 | 44,638 | – | 752,312 |
| Liquidity/money market funds | 611,525 | 611,525 | – | – |
| **Total** | **1,408,475** | **656,163** | **–** | **752,312** |

| | As at 31 December 2018 | | | |
|---|---|---|---|---|
| Financial assets | Total $000 | Level 1 $000 | Level 2 $000 | Level 3 $000 |
| **Investment portfolio summary** | | | | |
| Unlisted investments at fair value through profit and loss | 7,645 | – | – | 7,645 |
| Unlisted fixed interest investments at fair value through profit and loss | 274,500 | – | – | 274,500 |
| Unlisted floating interest investments at fair value through profit and loss | 725,120 | – | – | 725,120 |
| | 1,007,265 | – | – | 1,007,265 |
| Liquidity/money market funds | 359,808 | 359,808 | – | – |
| **Total** | **1,367,073** | **359,808** | **–** | **1,007,265** |

A reconciliation of fair value measurements in Level 3 is set out below.

### Level 3 financial assets at fair value through profit or loss

30 June 2019

| | Unlisted investments $000 | Unlisted fixed interest investments $000 | Unlisted floating interest investments $000 | Total $000 |
|---|---|---|---|---|
| Opening balance | 7,645 | 274,500 | 725,120 | 1,007,265 |
| Purchases | – | – | 98,722 | 98,722 |
| Redemptions* | (6,805) | – | (345,930) | (352,735) |
| Change in unrealised depreciation | (840) | – | (100) | (940) |
| **Closing balance at 30 June 2019** | **–** | **274,500** | **477,812** | **752,312** |

* Redemptions are the proceeds received from the repayment of investments.

There were no transfers between levels during the period.

# Notes to the Financial Statements continued

For the period ended 30 June 2019

## 7. Investments at fair value through Profit and Loss continued

### Valuation techniques

Unrealised gains and losses recorded on Level 2 and 3 financial instruments are reported in unrealised gain/(loss) on investments on the Statement of Comprehensive Income. At the time the investments are made, the Investment Manager calculates an expected rate of return based on the purchase price and the cash flows as projected at that time. The projected cash flows are calculated at the time of the investment by estimating future product sales and applying the corresponding royalty rate for capped royalty investments. Estimates of future product sales are generated through models driven by several factors that include the potential size of the market (disease incidence and prevalence), the product's market share over time and the price of the product.

During the periods following the initial investment valued at Level 3, the Investment Manager reviews and, if appropriate, revises the assumptions in the sales models and calculates the net present value of the remaining cash flows using the expected rate of return. Inputs reflect management's best estimate of what market participants would use in pricing the assets or liabilities at the measurement date. Consideration is given to the risk inherent in the valuation techniques and the risk inherent in the inputs of the model. All investments are valued at fair value using a discounted cash flow methodology. For capped royalty investments, discount rates are applied to the consensus forecasts for sales of the underlying products to determine fair value.

The Company's unlisted investments, with the exception of the RPS Note, are all classified as level 3 investments. The fair values of the unlisted investments have been determined principally by reference to discounted cash flows. The significant unobservable input used is detailed below:

| | As at 30 June 2019 | | | | | As at 31 December 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Assets | Fair value at Level 3 financial assets at fair value through profit or loss $000 | Valuation technique | Unobservable input | Discount rate | Fair value sensitivity to a 100bps increase in the IRR $000 | Fair value at Level 3 financial assets at fair value through profit or loss $000 | Valuation technique | Unobservable input | Discount rate | Fair value sensitivity to a 100bps increase i n the IRR $000 |
| Limited partnership interest in BioPharma III | – | – | – | – | – | 7,645 | N/A | N/A | N/A | N/A |
| Lexicon Pharmaceuticals, Inc | 124,500 | Discounted cash flow | Discount rate | 10.2 | 121,239 | 124,500 | Discounted cash flow | Discount rate | 10.1% | 120,826 |
| Tesaro, Inc | – | – | – | – | – | 322,000 | Discounted cash flow | Discount rate | 11.4% | 312,943 |
| Novocure | 150,000 | Discounted cash flow | Discount rate | 10.2 | 146,173 | 150,000 | Discounted cash flow | Discount rate | 10.6% | 145,811 |
| Sebela | 164,782 | Discounted cash flow | Discount rate | 12.0 | 162,623 | 188,711 | Discounted cash flow | Discount rate | 11.7% | 185,622 |
| Amicus | 150,000 | Discounted cash flow | Discount rate | 11.1 | 145,758 | 150,000 | Discounted cash flow | Discount rate | 11.1% | 145,337 |
| BMS | 103,031 | Discounted cash flow | Discount rate | 7.7 | 98,263 | 64,409 | Discounted cash flow | Discount rate | 8.1% | 59,606 |
| BDSI | 60,000 | Discounted cash flow | Discount rate | 10.6 | 59,091 | – | – | – | – | – |

## 8. Trade and other receivables

| | At 30 June 2019 $000 | At 31 December 2018 $000 |
|---|---|---|
| Unlisted fixed interest income receivable | 2,851 | 2,864 |
| Unlisted floating interest income receivable | 3,828 | 17,079 |
| Accrued interest on liquidity/money market funds | 267 | 694 |
| Share issue cost receivable | – | 466 |
| Other debtors | 295 | 345 |
| | **7,241** | **21,448** |
| **Non-current assets** | | |
| Unlisted floating interest income from BPCR Ongdapa | 4,049 | 988 |

# Notes to the Financial Statements continued

For the period ended 30 June 2019

## 9. Cash and cash equivalents

| | At 30 June 2019 $000 | At 31 December 2018 $000 |
|---|---|---|
| Cash at bank | 1,363 | 3,764 |
| Liquidity/money market funds | 611,525 | 359,808 |
| | **612,888** | **363,572** |

## 10. Trade and other payables

| | At 30 June 2019 $000 | At 31 December 2018 $000 |
|---|---|---|
| Accrued management fees | 3,510 | 3,194 |
| Share issue costs | – | 1 |
| C Share conversion costs | – | 22 |
| Accruals | 394 | 2,240 |
| | **3,904** | **5,457** |

## 11. Return per ordinary share

Revenue return per ordinary share is based on the net revenue after taxation of $83,354,000 (30 June 2018: $33,306,000) and 1,373,932,067 (30 June 2018: 914,252,831) ordinary shares, being the weighted average number of ordinary shares for the period.

Capital return per ordinary share is based on net capital loss for the period of $3,420,000 (30 June 2018: $1,863,000) and on 1,373,932,067 (30 June 2018: 914,252,831) ordinary shares, being the weighted average number of ordinary shares for the period.

Basic and diluted return per share are the same as there are no arrangements which could have a dilutive effect on the Company's ordinary shares.

## 12. Net asset value per ordinary share

The basic total net assets per ordinary share is based on the net assets attributable to equity shareholders at 30 June 2019 of $1,409,430,000 (30 June 2018: $918,537,000 and 31 December 2018: $1,380,027,000) and ordinary shares of 1,373,932,067 (30 June 2018: 914,252,831 and 31 December 2018: 1,373,932,067), being the number of ordinary shares in issue at 30 June 2019.

There is no dilution effect and therefore there is no difference between the diluted total net assets per ordinary share and the basic total net assets per ordinary share.

## 13. C Shares

| | Period to 30 June 2019 $000 | Year ended 31 December 2018 $000 |
|---|---|---|
| Balance at beginning of the year | – | – |
| Gross proceeds of C Shares issue | – | 163,782 |
| C Share issue costs | – | (3,275) |
| Amortisation of C Share liability* | – | 3,895 |
| Balance of C Share liability converted to Ordinary Shares | – | (164,402) |
| **Balance at end of the year** | **–** | **–** |

* The amortisation of C Share liability represents the net return from the C Share, per the Statement of Comprehensive Income.

On 16 April 2018, the Company issued 163,782,307 C shares raising gross proceeds of $163,782,000. These C shares were admitted to the Official List of TISE and to trading on the Specialist Fund Segment of the LSE on 16 April 2018.

For Shareholder resolutions in respect of amendments to the Articles or in respect of a winding up of the Company, each class of Shares will vote as a separate class. For all other resolutions, the holders of Ordinary Shares and each class of C Shares shall vote as one class.

# Notes to the Financial Statements continued

For the period ended 30 June 2019

## 13. C Shares continued

Under IAS 32 'Financial Instruments: Presentation', these C Shares met the definition of a financial liability rather than equity instrument and were presented in the financial statements as a liability of the Company carried at amortised cost.

On 29 October 2018 the C Shares were converted to Ordinary Shares on the basis of a conversion ratio of 0.98984 C Shares for every Ordinary Share which gave a conversion rate of 989 Ordinary Shares for every 1,000 C Shares held.

## 14. Share capital

| | Year ended 30 June 2019 | | Period ended 31 December 2018 | |
|---|---|---|---|---|
| | Number of shares | $000 | Number of shares | $000 |
| **Issued and fully paid:** | | | | |
| Ordinary shares of $0.01: | | | | |
| Balance at beginning of the period | 1,373,932,067 | 13,739 | 914,252,831 | 9,143 |
| Ordinary Shares issued on conversion of C Shares - 29 October 2018 | – | – | 162,118,260 | 1,621 |
| Ordinary Share issue - 5 November 2018 | – | – | 297,560,976 | 2,975 |
| **Balance at end of the period** | **1,373,932,067** | **13,739** | **1,373,932,067** | **13,739** |

Total voting rights at 30 June 2019 were 1,373,932,067 (31 December 2018: 1,373,932,067). For shareholder resolutions in respect of amendments to the Articles or in respect of a winding up of the Company, each class of shares will vote as a separate class. For all other resolutions, the holders of ordinary shares and each class of C shares shall vote as one class.

On 29 October 2018, 162,118,260 Ordinary Shares were issued for the conversion of the C shares for a consideration of £164,402,000 representing the value of the C share asset pool, the balance of C shares were redeemed.

On 5 November 2018, a further issue of 297,560,976 Ordinary Shares took place, raising gross proceeds of $305,000,000.

## 15. Subsidiary

The Company formed a wholly-owned subsidiary, BPCR Ongdapa Limited ("BPCR Ongdapa"), incorporated in Ireland, on 5 October 2017 for the purpose of entering into a purchase, sale and assignment agreement with a wholly-owned subsidiary of Royalty Pharma for the purchase of a 50 per cent. interest in a stream of payments acquired by Royalty Pharma from Bristol-Myers Squibb. In accordance with IFRS 10, the Company is exempted from consolidating a controlled investee as it is an investment trust. Therefore, the Company's investment in BPCR Ongdapa is recognised at fair value through profit and loss.

## 16. Reconciliation of total return for the period before taxation to cash generated from operations

| | Period ended 30 June 2019 $000 | Period ended 30 June 2018 $000 |
|---|---|---|
| Total return for the period before taxation | 79,934 | 35,169 |
| Capital gains | 3,372 | (1,998) |
| Decrease in trade receivables | 10,680 | 95 |
| (Decrease)/increase in trade payables | (1,553) | 443 |
| Finance costs – C share amortisation | – | 474 |
| **Cash generated from operations** | **92,433** | **34,183** |

## Analysis of net cash and net debt

Net cash

| | At 1 January 2019 $000 | Cash flow $000 | Exchange movement $000 | At 30 June 2019 $000 |
|---|---|---|---|---|
| Cash and cash equivalents | 363,572 | 249,322 | (6) | **612,888** |

# Notes to the Financial Statements continued

For the period ended 30 June 2019

## 17. Financial instruments

The Company's financial instruments include its investment portfolio, cash balances, trade receivables and trade payables that arise directly from its operations. Adherence to the Company's investment policy is key in managing risk. Refer to the Strategic Overview on pages 18 to 23 of the Company's annual financial statements for the year ended 31 December 2018 for a full description of the Company's investment objective and policy.

The Investment Manager monitors the financial risks affecting the Company on an ongoing basis and the Directors regularly receive financial information, which is used to identify and monitor risk. All risks are actively reviewed and monitored by the Board. Details of the Company's principal risks can be found in the Strategic Report on pages 20 to 23 of the Company's annual financial statements for the year ended 31 December 2018.

The main risks arising from the Company's financial instruments are:

i) market risk, including price risk, currency risk and interest rate risk;
ii) liquidity risk; and
iii) credit risk.

### (i) Market risk

Market risk is the risk of loss arising from movements in observable market variables. The fair value of future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. The Investment Manager assesses the exposure to market risk when making each investment decision and these risks are monitored by the Investment Manager on a regular basis and the Board at quarterly meetings with the Investment Manager.

### Market price risk

The Company is exposed to price risk arising from its investments whose future prices are uncertain. The Company's exposure to market price risk comprises movements in the value of the Company's investments. See Note 7 above for investments that fall into Level 3 of the fair value hierarchy and refer to the description of valuation policies in Note 2(d). The nature of the Company's investments, with a high proportion of the portfolio invested in unlisted debt instruments, means that the investments are valued by the Company after consideration of the most recent available information from the underlying investments. The Company's portfolio is diversified among counterparties and by the sectors in which the underlying companies operate, minimising the impact of any negative industry-specific trends.

The table below analyses the effect of a 10 per cent. change in the fair value of investments.

| | As at 30 June 2019 | | As at 30 June 2018 | | As at 31 December 2018 | |
|---|---|---|---|---|---|---|
| Asset | Fair value $000 | 10 per cent. Increase/ decrease in market value $000 | Fair value $000 | 10 per cent. Increase/ decrease in market value $000 | Fair value $000 | 10 per cent. Increase/ decrease in market value $000 |
| Amicus Senior Secured Loan | 150,000 | 15,000 | – | – | 150,000 | 15,000 |
| BioPharma III | – | – | 64,790 | 6,479 | 7,645 | 765 |
| Biodelivery Sciences International Equity | 23,300 | 2,330 | – | – | – | – |
| Biodelivery Sciences International Loan | 60,000 | 6,000 | – | – | – | – |
| BMS Purchased Payments (BPCR Ongdapa) | 103,031 | 10,303 | 20,085 | 2,008 | 64,409 | 6,441 |
| Convertible bonds | 21,337 | 2,134 | – | – | – | – |
| Lexicon Senior Secured Loan | 124,500 | 12,450 | 124,500 | 12,450 | 124,500 | 12,450 |
| Novocure Senior Secured Loan | 150,000 | 15,000 | 150,000 | 15,000 | 150,000 | 15,000 |
| RPS Note | – | – | 52,289 | 5,229 | – | – |
| Sebela Senior Secured Loan | 164,782 | 16,478 | 194,179 | 19,418 | 188,711 | 18,871 |
| Tesaro Senior Secured Loan | – | – | 310,879 | 31,088 | 322,000 | 32,200 |
| **Total** | **796,950** | **79,695** | **916,722** | **91,672** | **1,007,265** | **100,727** |

The Board manages the risks inherent in the investment portfolio by ensuring full and timely reporting of relevant information from the Investment Manager. Investment performance and exposure are reviewed at each Board meeting.

# Notes to the Financial Statements continued

For the period ended 30 June 2019

## 17. Financial instruments continued

### Currency risk

Currency risk is the risk that fair values of future cash flows of a financial instrument fluctuate because of changes in foreign exchange rates.

At 30 June 2019, the Company held cash balances in GBP Sterling of £291,000 ($371,000) (30 June 2018: £58,000 ($77,000) and 31 December 2018: £245,000 ($312,000)) and in Euro of €3,000 ($4,000) (30 June 2018: €1,000 ($2,000) and 31 December 2018: €1,000 ($2,000)) .

The currency exposures (including non-financial assets) of the Company as at 30 June 2019:

| | Cash $000 | Investments $000 | Other net assets/ (liabilities) $000 | Total $000 |
|---|---|---|---|---|
| Sterling | 371 | – | 2 | – |
| Euro | 4 | – | – | 4 |
| US Dollar | 612,513 | 796,950 | (410) | 1,379,760 |
| | **612,888** | **796,950** | **(408)** | **1,409,430** |

The currency exposures (including non-financial assets) of the Company as at 30 June 2018:

| | Cash $000 | Investments $000 | Other net assets/ (liabilities) $000 | Total $000 |
|---|---|---|---|---|
| Sterling | 77 | – | (95) | (18) |
| Euro | 2 | – | – | 2 |
| US Dollar | 612,809 | 1,007,265 | 3,432 | 1,623,506 |
| | **612,888** | **1,007,265** | **3,337** | **1,623,490** |

The currency exposures (including non-financial assets) of the Company as at 31 December 2018:

| | Cash $000 | Investments $000 | Other net assets/ (liabilities) $000 | Total $000 |
|---|---|---|---|---|
| Sterling | 312 | – | (52) | 260 |
| Euro | 2 | – | – | 2 |
| US Dollar | 363,258 | 1,007,265 | 9,237 | 1,379,760 |
| | **363,572** | **1,007,265** | **9,185** | **1,380,022** |

A 10 per cent. increase in the Sterling exchange rate would have increased net assets by $30,000 (30 June 2018: $3,000 and 31 December 2018: $10,000). A 10 per cent. decrease would have decreased net assets by the same amount (30 June 2018: same and 31 December 2018: same).

### Interest rate risk

Interest rate risk is the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate movements may potentially affect future cash flows from:

- investments in fixed interest rate securities and unquoted loans; and
- the level of income receivable on cash deposits and liquidity funds.

The Lexicon loan, Novocure loan and the convertible bond have a fixed interest rate and therefore are not subject to interest rate risk. At 30 June 2019, the Lexicon loan, Novocure loan and the convertible bond represented 8.83 per cent., 10.64 and 1.51 per cent. of the Company's net assets, respectively (30 June 2018: 13.55 per cent., 16.33 per cent. and nil per cent., and 31 December 2018, 9.02 per cent., 10.87 per cent. and nil per cent.). The RPS Note was fully redeemed in the year to 31 December 2018 (30 June 2018: representing 5.69 per cent. of the Company's Net Assets).

# Notes to the Financial Statements continued

For the period ended 30 June 2019

## 17. Financial instruments continued

The Amicus loan, Biodelivery Sciences loan, Sebela loan, BPCR Ongdapa loan and cash and cash equivalents, including investments in liquidity funds, have a floating rate of interest. At 30 June 2019, these represented nil per cent., nil per cent., 21.14 per cent., 2.19 per cent. and 43.13 per cent. of the Company's net assets, respectively (30 June 2018: nil per cent., nil per cent., 21.14 per cent., 2.19 per cent. and 16.24 per cent. and 31 December 2018: 10.87 per cent., nil per cent., 13.67 per cent., 4.67 per cent. and 26.35 per cent.). The Tranche A and B loans of Tesaro were fully redeemed in the period to 30 June 2019 (June 2018: representing 24.17 per cent. of the Company's net assets, 31 December 2018: representing 23.33 per cent. of the Company's net assets).

### (ii) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. At 30 June 2019, the Company had cash and cash equivalents, including investments in liquidity/money market funds with balances of $612,888,000 (30 June 2018: $149,194,000 and 31 December 2018: $363,572,000) and maximum unfunded commitments of $56,969,000–76,969,000 (30 June 2018: $161,500,000–$181,500,000 and 31 December 2018: $75,591,000–$95,591,000).

The Company maintains sufficient liquid investments through its cash and cash equivalents to pay accounts payable, accrued expenses and ongoing expenses of the Company. Liquidity risk is manageable through a number of options, including the Company's ability to issue debt and/or equity and by selling all or a portion of an investment in the secondary market.

### (iii) Credit risk

This is the risk the Company's trade and other receivables will not meet their obligations to the Company. While the Company will often seek to be a secured lender for each debt asset, there is no guarantee that the relevant borrower will repay the loan or that the collateral will be sufficient to satisfy the amount owed. All of the Company's investments are senior secured investments as detailed in the Portfolio Information on page 15.

When the Manager makes an investment, the creditworthiness of the counterparty is taken into account so as to minimise the risk to the Company of default. Creditworthiness is assessed on an ongoing basis and changes to a counterparty's risk profile are monitored by the Manager on a regular basis, and discussed with the Board at quarterly meetings.

The Company's maximum exposure to credit risk at any given time is the fair value of its investment portfolio and the non-current accrued income from it's subsidiary. At 30 June 2019, the Company's maximum exposure to credit risk was $800,999,000 (30 June 2018: $927,844,000 and 31 December 2018: $1,008,253,000). The Company's concentration of credit risk by counterparty can be found in the Portfolio Information contained on page 15.

### Capital management

The Company's primary objectives in relation to the management of capital are:

- to ensure its ability to continue as a going concern;
- to ensure that the Company conducts its affairs to enable it to continue to meet the criteria to qualify as an investment trust; and
- to maximise the long-term shareholder returns in the form of sustainable income distributions through an appropriate balance of equity capital and debt.

The Company is subject to externally imposed capital requirements:

- as a public company, the Company has a minimum share capital of £50,000.

The Company has complied with all the above requirements during this financial period.

## 18. Related party transactions

The amount incurred in respect of management fees during the period to 30 June 2019 was $7,053,000, of which $3,510,000 was outstanding at 30 June 2019. The amount due to the Investment Manager for performance fees at 30 June 2019 was $7,794,000, all of which was outstanding as at 30 June 2019.

The amount incurred in respect of Directors' fees during the period to 30 June 2019 was $191,000 of which $nil was outstanding at 30 June 2019.

## 18. Related party transactions continued

The Shared Services Agreement was entered into by and between Royalty Pharma, an affiliate of Pharmakon Advisors, L.P., and the Investment Manager on 30 November 2016 and deemed effective as of 1 January 2016. Under the terms of the Shared Services Agreement, the Investment Manager will have access to the expertise of certain Royalty Pharma employees, including its research, legal and compliance, and finance teams.

On 7 February 2018, the Company entered into senior secured term loan agreement for $150,000,000 with Novocure Limited (NASDAQ: NVCR) (”Novocure”). The $150,000,000 loan will mature in February 2023 and bears interest at 9.0 per cent. per annum. Novocure used $100,000,000 of the net proceeds to entirely prepay the $100,000,000, 10.0 per cent. coupon loan made by BioPharma III Holdings, LP (”BioPharma III”) in 2015 that was scheduled to mature in 2020. The Company is a limited partner in BioPharma III and therefore received a distribution of approximately $46,000,000 from BioPharma III as a result of the prepayment from Novocure. In the period to 30 June 2019, the Company recorded interest of $6,788,000 (2018: $5,363,000). The outstanding balance as at 30 June 2019 was $150,000,000 (2018: $150,000,000).

On 8 December 2017, the Company’s wholly-owned subsidiary BPCR Ongdapa entered into a purchase, sale and assignment agreement with RPI Acquisitions (Ireland) Limited (“RPI Acquisitions”), an affiliate of Royalty Pharma, for the purchase of a 50 per cent. interest in a stream of Purchased Payments acquired by RPI Acquisitions from Bristol-Myers Squibb through a purchase agreement dated 14 November 2017. As a result of the arrangements, RPI’s subsidiary and the Company’s subsidiary are each entitled to the benefit of 50 per cent. of the Purchased Payments under identical economic terms. The Purchased Payments are linked to tiered worldwide sales of Onglyza and Farxiga, diabetes agents marketed by AstraZeneca, and related products. The Company is expected to fund $140,000,000 to $160,000,000 between 2018 and 2020, determined by product sales and will receive payments from 2020 through 2025 estimated to yield a return in the high single-digits per annum. The Company advanced $38,622,000 to RPI Acquisitions in the first half of 2019 (2018: $19,985,000) for the Purchased Payments. In the first half of 2019, the Company recorded interest of $2,542,000 (2018: $Nil).

On 4 December 2017, the Company and BioPharma Credit Investments IV, S.àr.L. (“BioPharma IV”), a fund managed by the Investment Manager, entered into a definitive term loan agreement for up to $200,000,000 with Lexicon Pharmaceuticals, Inc. (NASDAQ: LXRX), a fully integrated biopharmaceutical company (“Lexicon”). The loan is secured by substantially all of Lexicon’s assets, including its rights to XERMELO® and sotagliflozin. The $200,000,000 loan will be available in two tranches, each maturing in December 2022 and bearing interest at 9.0 per cent. per annum. The first $150,000,000 was available immediately and an additional tranche of $50,000,000 was available for draw by March 2019 at Lexicon’s option if net XERMELO sales were greater than $25,000,000 in the preceding quarter. The Company funded $124,500,000 of the first tranche on 18 December 2017 and Lexicon has not drawn the second tranche. In the period to 30 June 2019, the Company recorded interest of $5,634,000 (2018: $5,634,000). The outstanding balance as at 30 June 2019 was $124,500,000 (2018: $124,500,000).

On 21 November 2017, the Company and BioPharma IV entered into a definitive loan agreement for up to $500,000,000 with Tesaro, Inc. (NASDAQ: TSRO), an oncology focused biopharmaceutical company (“Tesaro”). Under the terms of the transaction, the Company funded $222,000,000 of the $300,000,000 first tranche on 6 December 2017 and committed to invest up to $148,000,000 of the $200,000,000 second tranche by 20 December 2018 at Tesaro’s option with BioPharma IV committing to invest up to $130,000,000 in parallel with the Company acting as collateral agent. The Company funded $100,000,000 of the second tranche on 29 June 2018 and assigned its remaining $48,000,000 commitment to other investors. The loan has a term of seven periods and is secured by Tesaro’s U.S. rights to ZEJULA® and VARUBI®. The first $300,000,000 tranche bears interest at LIBOR plus 8 per cent. and the second tranche bears interest at LIBOR plus 7.5 per cent. The LIBOR rate is subject to a floor of 1 per cent. and certain caps. Each tranche of the loan is interest-only for the first two periods, amortises over the remaining term, and can be prepaid at Tesaro’s discretion, at any time, subject to prepayment fees. In the period to 30 June 2019, the Company recorded interest of $2,191,000 (2018: $11,194,000). Following its acquisition by GlaxoSmithKline, Tesaro repaid the $500,000,000 loan on 23 January 2019. The Company received a payment of $369,953,000 on its $322,000,000 share of the loan, including the make-whole and prepayment premium totaling $45,762,000. The outstanding balance as at 30 June 2019 was $Nil (2018: $322,000,000).

On 27 March 2017, the Company acquired a limited partnership interest in BioPharma III for $153,482,000. In the period to 30 June 2019, the Company recorded $nil (2018: $2,970,000) of investment income and repayments of $nil (2018: $63,673,000). The Company also recorded net gain on investments at fair value of $nil (2018: $2,014,000). On 31 January 2019 the limited partnership interest in BioPharma III was disposed of in full at cost of $6,804,967. The outstanding balance as at 30 June 2019 was $nil (2018: $64,791,000).

BioPharma III, BioPharma IV, and RPI Acquisitions are related entities of the Company due to a principal of the Investment Manager having significant influence over each of these entities.

# Notes to the Financial Statements continued

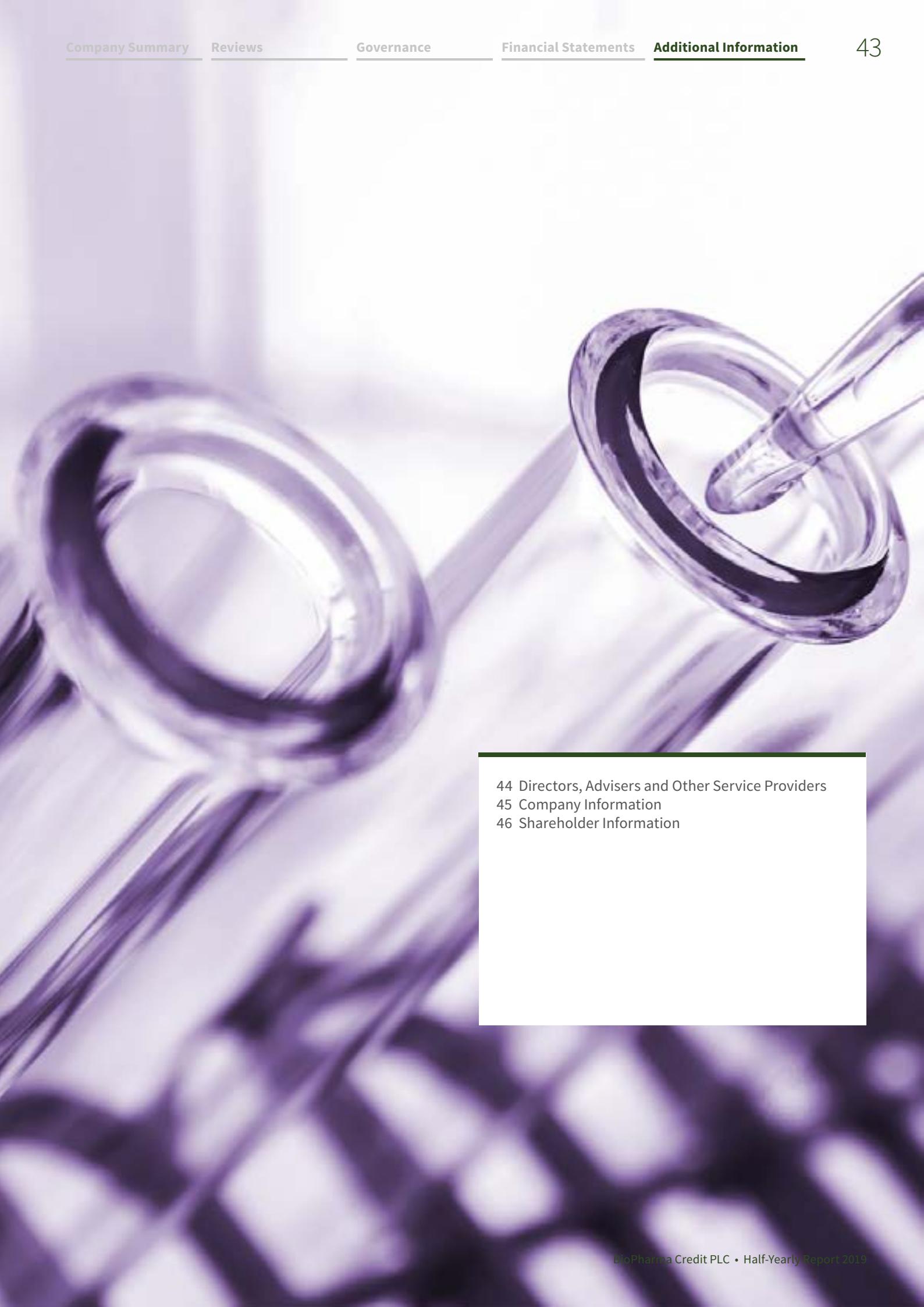
For the period ended 30 June 2019

## 19. Contingencies, guarantees and financial commitments

At 30 June 2019, there were outstanding commitments of $56,969,000 – $76,969,000 (30 June 2018: $161,500,000 – $181,500,000 and 31 December 2018: $75,591,000 – $95,591,000) in respect of investments (see Note 18 for further details).

## 20. Subsequent events

On 30 July 2019, the Company noted the announcement from Lexicon regarding Sanofi's notice of termination in relation to its collaboration and license agreement with Lexicon for the development and commercialization of Zynquista. Sanofi's actions do not impact XERMELO® which is marketed by Lexicon in the US and is partnered outside the US with Ipsen. Lexicon and Sanofi have not yet finalized the details of the termination and this process might take several weeks or months.



# Directors, Advisers and Other Service Providers

## Directors
Jeremy Sillem (Chairman)
Harry Hyman (Senior Independent Director)
Colin Bond
Duncan Budge
Stephanie Léouzon

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## Company Secretary and registered office
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## TISE sponsor
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## Company website
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# Company Information

The Company is a closed-ended investment company incorporated on 24 October 2016. The Ordinary Shares were admitted to trading on the Specialist Fund Segment of the Main Market of the LSE and TISE on 27 March 2017.

The Company intends to carry on business as an investment trust within the meaning of Chapter 4 of Part 24 of the Corporation Tax Act 2010 and an investment company within the meaning of Section 833 of the Companies Act 2006.

## Investment objective

The Company aims to generate long-term Shareholder returns, predominantly in the form of sustainable income distributions from exposure to the life sciences industry.

## Summary of investment policy

The Company will seek to achieve its investment objective primarily through investments in debt assets secured by royalties or other cash flows derived from sales of approved life sciences products. Subject to certain restrictions and limitations, the Company may also invest in unsecured debt and equity issued by companies in the life sciences industry.

The Investment Manager will select investment opportunities based upon in-depth, rigorous analysis of the life sciences products backing an investment as well as the legal structure of the investment. A key component of this process is to examine future sales potential of the relevant product which is affected by several factors, including but not limited to; clinical utility, competition, patent estate, pricing, reimbursement (insurance coverage), marketer strength, track record of safety, physician adoption and sales history.

The Company will seek to build a diversified portfolio by investing across a range of different forms of assets issued by a variety of borrowers. In particular, no more than 30 per cent. of the Company's gross assets will be exposed to any single borrower.

# Shareholder Information

## Key dates

| | |
|---|---|
| March | Annual results announced |
| | Payment of fourth interim dividend |
| June | Annual General Meeting |
| | Company's half-year end |
| | Payment of first interim dividend |
| September | Half-yearly results announced |
| | Payment of second interim dividend |
| December | Company's year end |
| | Payment of third interim dividend |

## Frequency of NAV publication

The Company's NAV is released to the LSE and TISE on a monthly basis and is published on the Company's website.

## Annual and Half-yearly Report

Copies of the Company's Annual and Half-yearly Reports, stock exchange announcements and further information on the Company can be obtained from the Company's website www.bpcruk.com.

## Identification codes

| | |
|---|---|
| SEDOL: | BDGKMY2 |
| ISIN: | GB00BDGKMY29 |
| TICKER: | BPCR |
| LEI: | 213800AV55PYXAS7SY24 |

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