

# BIOPHARMA

— CREDIT PLC —

## Debt Capital for the Life Sciences Industry



**COMPANY PRESENTATION – September 2021**

For additional information please email: [ir@bpccruk.com](mailto:ir@bpccruk.com)  
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# Experienced Investment Team

## Pharmakon Advisors

**Pedro Gonzalez de Cosio**  
*Co-Founder, Principal and CEO*

- ▶ Co-founded Pharmakon in 2009 after 17 years in structured finance investment banking



**Martin Friedman**  
*Principal*

- ▶ Joined Pharmakon in 2011 after 18 years in healthcare finance



**Pablo Legorreta**

*Co-Founder and Principal*

- ▶ Co-Founded Pharmakon in 2009
- ▶ Founded Royalty Pharma in 1996



**Scott Levitt, BSE, Bioengineering**  
*Vice President*

**Simon Gruber, PhD, Biophysics**  
*Senior Associate*

**Ankit Shah, BS**  
*Associate*

**Patrick Fisher, BA**  
*Vice President  
 Investor Relations*

**Jeffrey Caprio, CPA**  
*Vice President &  
 Controller*

**Adriana Benitez, CPA**  
*Senior Accountant  
 and IR*

**Laura Campos**  
*Administration*

## RP Management

**Pablo Legorreta**  
*Founder and CEO*

### Research and Investments

<b>Jim Reddoch, PhD</b>		<b>Marshall Urist, MD PhD</b>	
Molly Chiaramonte, PhD	Sandy Balkin	Gaurie Tilak, MD	
Sara Klymkowsky	Max Yoon	Philip Liu	
Brienne Kugler	Samuel Glazer	Alberto Sepulveda, PhD	
Vlad Nikolenko, PhD	Bill Grau	Turner Kufe, MD	
Vivian Liu, MD	Xico Gracida, PhD		

### Other Department Heads

<b>Investments</b>	<b>Christopher Hite, Vice Chairman</b>
<b>Legal &amp; Investments</b>	<b>George Lloyd, General Counsel</b>
<b>Finance</b>	<b>Terrance Coyne, CFO</b>
<b>Operations</b>	<b>Douglas Erb, CAO / CCO / CTO</b>

# Investment Opportunity – Summary

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## The Life Sciences Debt Market is an Underserved, Large and Growing Opportunity

- ▶ Worldwide \$1.1tn industry growing at 6% per annum
- ▶ Large capital needs, private companies spent \$180bn in R&D during 2018<sup>1</sup>
- ▶ Industry dynamics create new debt investment opportunities
- ▶ No large dedicated lender or specialized debt market

## Pharmakon Advisors, LP

### An Experienced Investment Manager with a Strong Track Record

- ▶ ~\$5.1bn invested in 41 transactions backed by cash flows from life sciences products
- ▶ Four private funds are fully realized and generated a 10.4% unlevered weighted average annualized net return<sup>2</sup>
- ▶ Core team has over twenty years' experience investing in life sciences debt and royalties
- ▶ Currently manages BioPharma Credit Investments V (“BioPharma-V”), a private fund with \$908 million in commitments
- ▶ Attractive investment pipeline with a long runway of investment opportunities

## BIOPHARMA — CREDIT PLC —

### BioPharma Credit Targets Strong Risk-Adjusted Returns

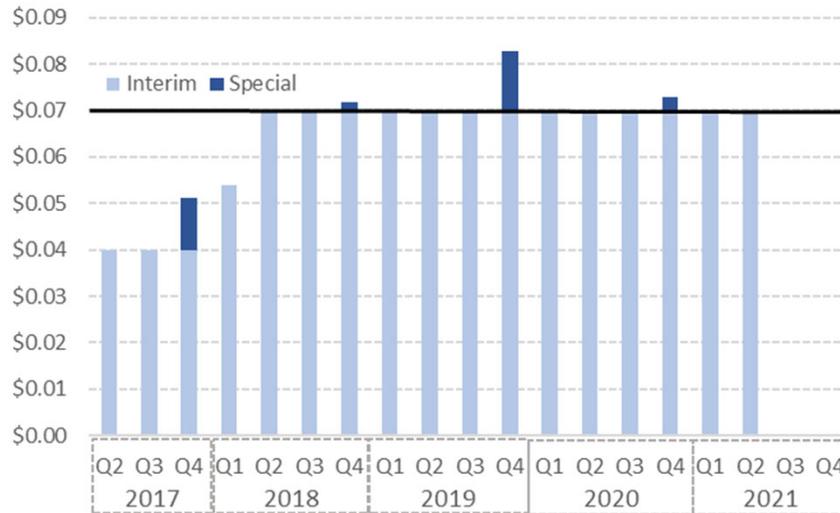
- ▶ Invests in loans, predominantly secured, in companies with approved, commercial stage products.
- ▶ Target total net return on NAV of 8-9% per annum over the medium term<sup>2</sup>
- ▶ Currently paying and will continue to target US\$0.07 annual dividend plus a variable special dividend paid annually

1. Source: Evaluate Pharma.

2. These are targets and not profit forecasts. They are based on estimates of Pharmakon and are subject to change depending on the material risks and market changes. There can be no assurance that these targets will be met. Past performance is not an indication of future performance.

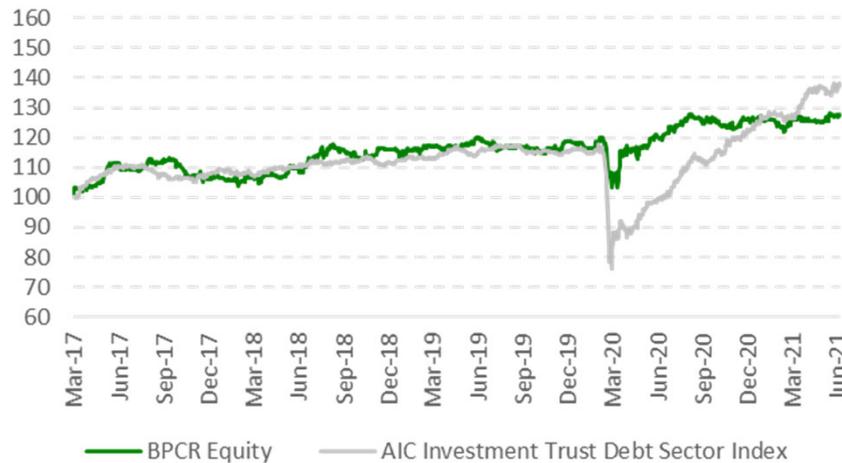
# BPCR has generated consistent returns since IPO<sup>1</sup>

BPCR annualized<sup>2</sup> dividends per share in US\$



- ▶ Interim dividend has consistently met the annualized \$0.07 target during the past ten quarters
- ▶ The annualized dividend for 2020 totaled \$0.073

Price and NAV TR performance<sup>3</sup> since IPO



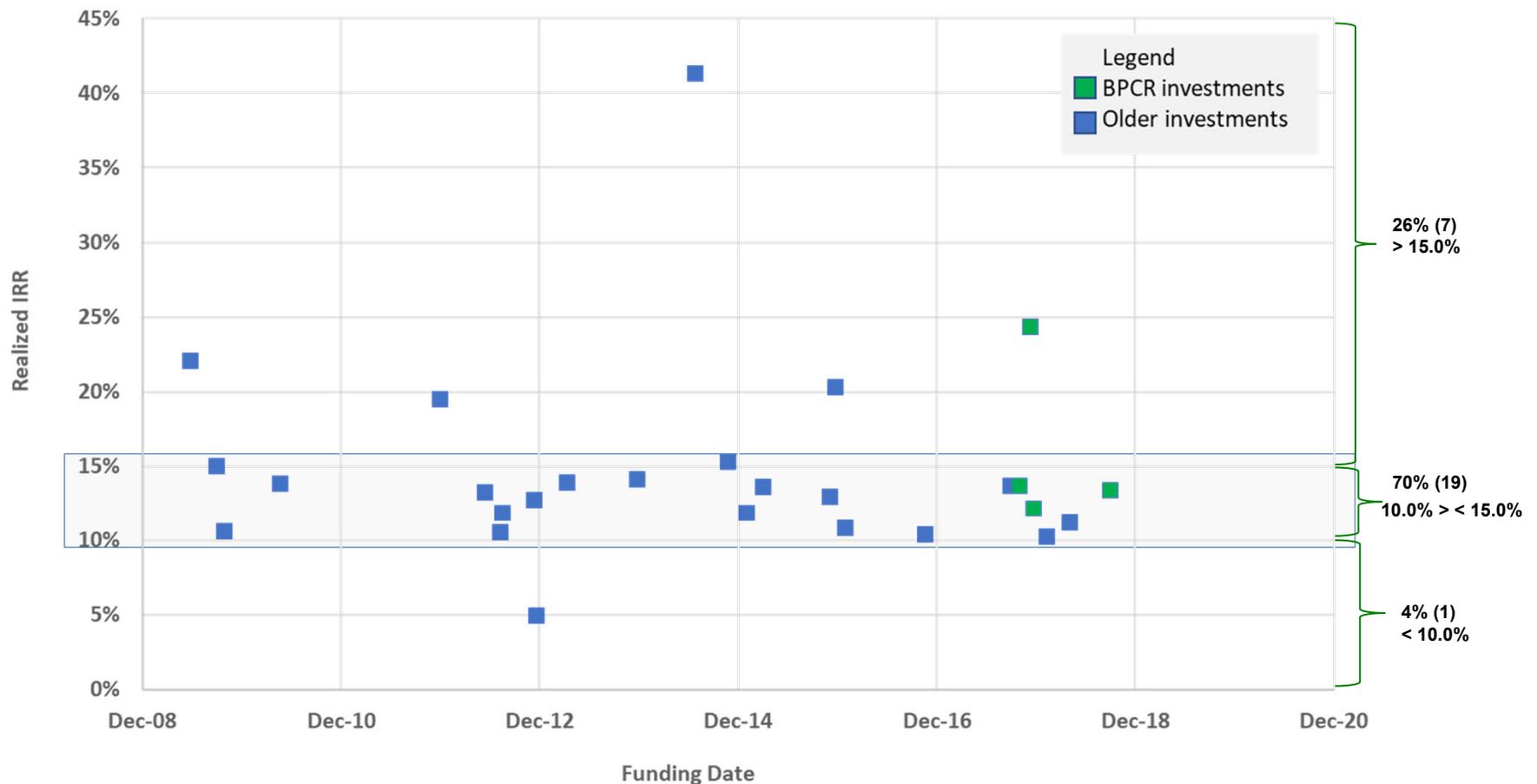
- ▶ A consistent dividend has led to a steady increase in NAV total return
- ▶ BPCR's predictable cash flows has allowed it to enjoy relatively low volatility

1. Past performance is not an indication of future performance.  
 2. (Interim Dividend x 4) + Special Dividend if applicable.  
 3. Source: Edison Research

# Investment track record of mostly singles and doubles

## – Emphasis on consistency and reduced risk

96% of past Pharmakon transactions have generated returns > 10%  
(27 Realized Transactions)<sup>1</sup>



1. Realized Internal Rate of Return to the Funds (Gross Returns). Excludes trading in convertible bonds. Past performance is not an indication of future performance.

# Early prepayments of senior secured loans are common and lead to higher realized IRRs

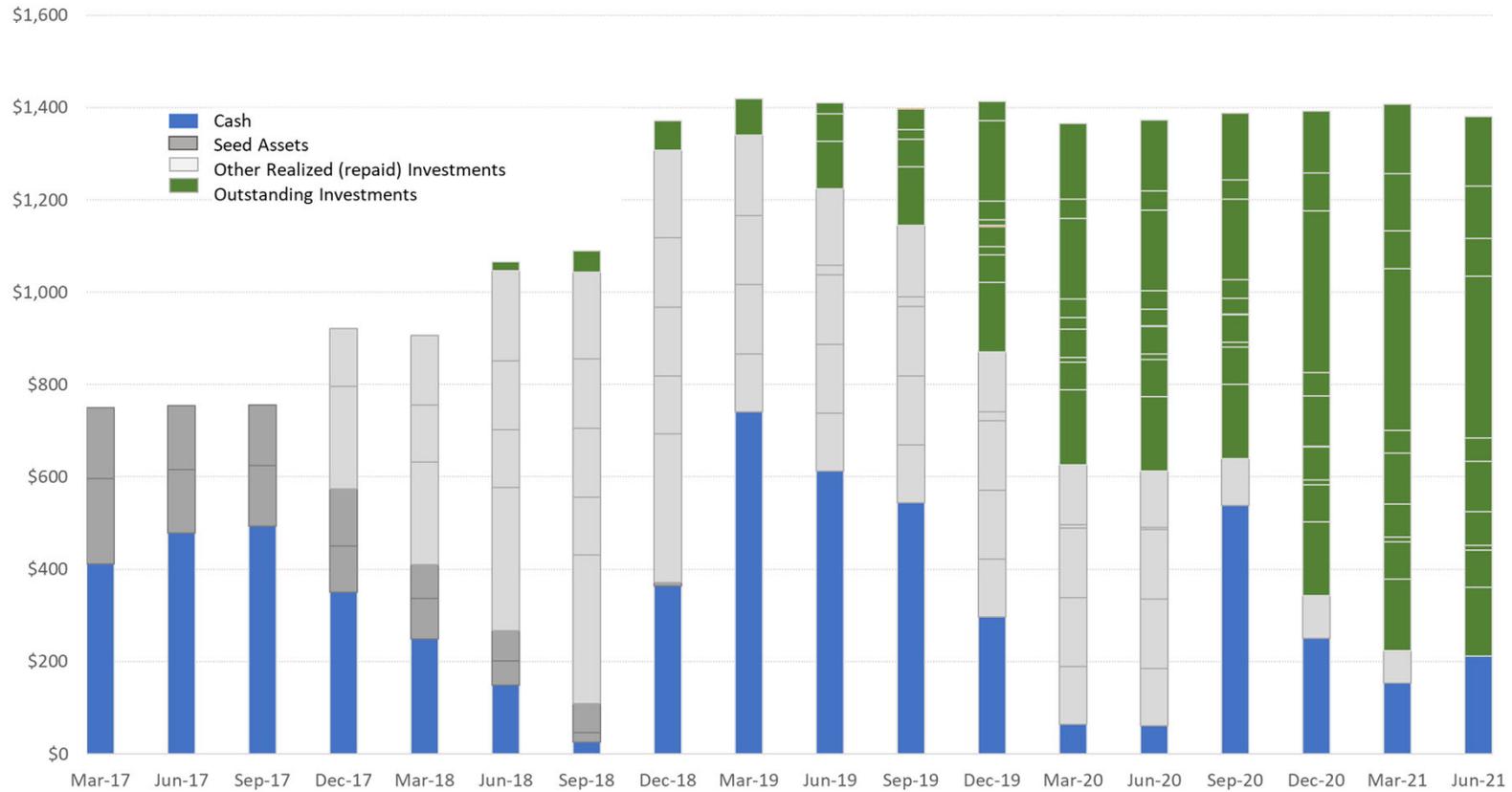
	Original Tenor (yrs)	Realized Tenor (yrs)	Loan Amount <sup>1</sup>	Projected IRR <sup>2</sup>	Realized IRR	Increase
	5.9	0.7	\$340m	9.2%	15.3%	610bps
	5.9	3.0	\$100m	11.1%	11.9%	80bps
	6.0	3.7	\$575m	12.0%	13.7%	165bps
	5.7	2.9	\$30m	11.0%	13.0%	200bps
	7.0	1.4	\$75m	11.8%	20.0%	820bps
	5.3	1.9	\$50m	11.6%	14.3%	270bps
BIO PHARMA CREDIT PLC. 	7.2	1.2	\$500m	12.0%	24.4%	1,240bps
	5.0	1.6	\$40m	12.7%	13.7%	100bps
BIO PHARMA CREDIT PLC. 	5.2	2.8	\$200m	10.0%	12.1%	210bps
BIO PHARMA CREDIT PLC. 	5.0	2.5	\$150m	9.5%	10.2%	70bps
BIO PHARMA CREDIT PLC. 	4.4	3.2	\$316m	10.9%	11.2%	31bps
BIO PHARMA CREDIT PLC. 	5.1	1.9	\$150m	11.0%	13.4%	240bps

Notes: <sup>1</sup> Original values excluding amortizations/repayments.

<sup>2</sup> Projections as of the date of investment.

# New investments have allowed BPCR to broaden its diversification and deploy cash from capital raises and loan repayments

Evolution of BPCR Portfolio since IPO<sup>1</sup> (US\$m)



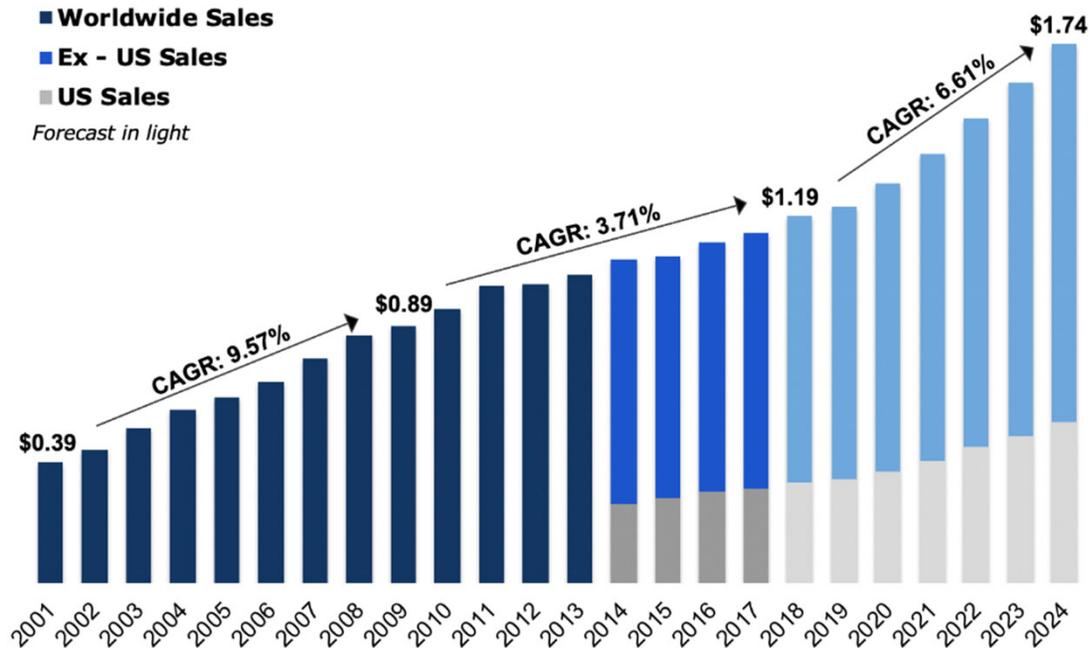
Seed Assets	\$340	Total invested by BPCR since IPO	\$2,413
Other realized	\$981		
Amortizations	\$76		
<b>Total repayments</b>	<b>\$1,397</b>		

1. Values represent principal amount outstanding at quarter end.



# Life Sciences is a \$1 Trillion + Vital Industry with Sales that are Uncorrelated and Unaffected by Economic Cycles

Global Pharmaceutical Sales: Historical & Projected (\$, Trn)

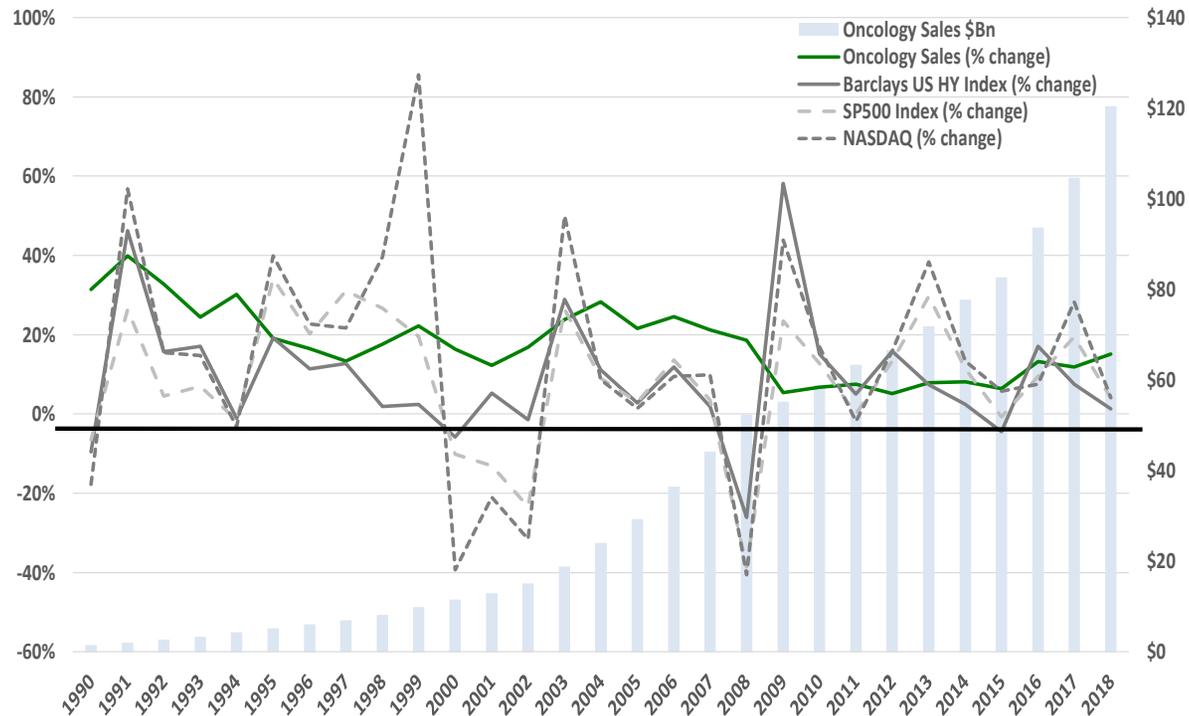


Sources: IQVIA, EvaluatePharma  
 \*Data for US Sales and Ex-US Sales unavailable 2001-2013

Growth Drivers		4 R/D/Innovation Create Large New Markets	
1	Growing Population	<p><u>Known Diseases:</u> ~30,000</p> <p>➔</p> <p><u>Existing Treatments:</u> ~6,000 (only ~20%)</p>	
2	Ageing Population		
3	Growing Demand From Countries in Transition		

# Life Sciences is a \$1 Trillion + Vital Industry with Sales that are Uncorrelated and Unaffected by Economic Cycles *(cont'd)*

Annual Changes in Sales of Oncology Drugs vs Major Indices

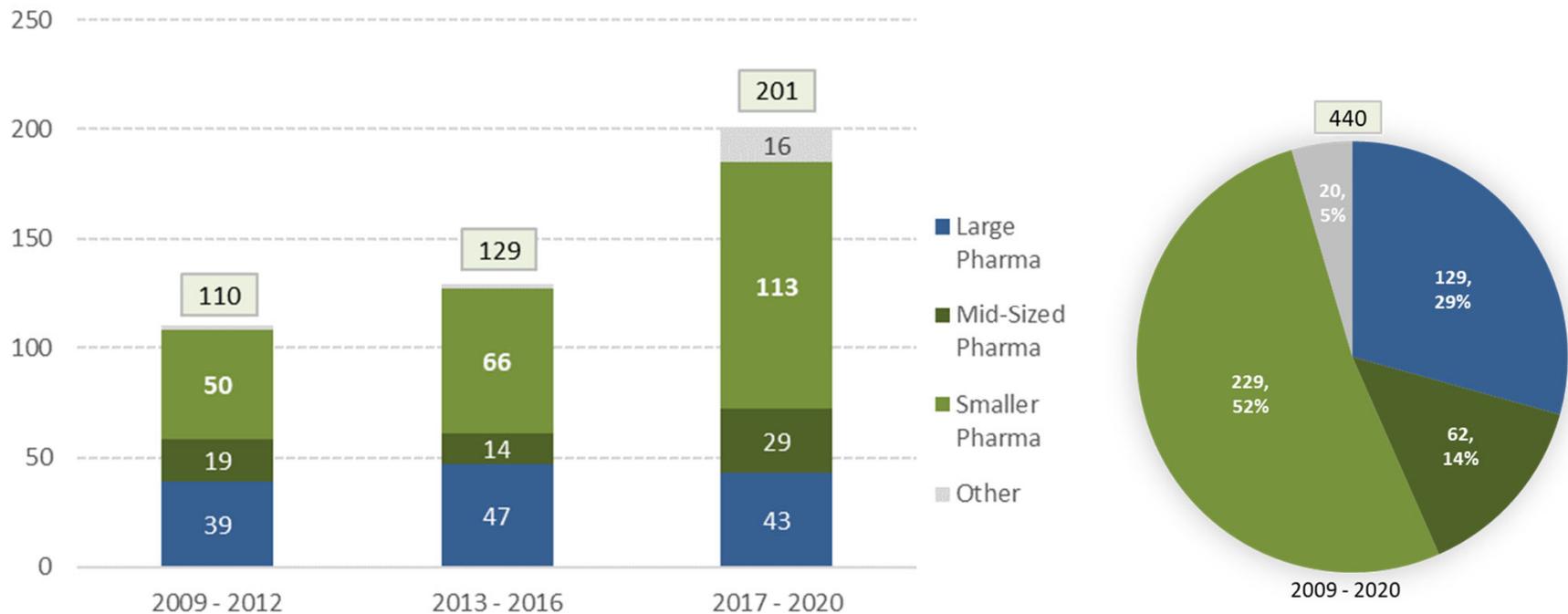


Source: Bloomberg, Evaluate Pharma, Pharmakon Advisors

Correlations	Barclays High Yield	SP500 Index	NASDAQ Index	Oncology Drugs
Barclays High Yield	<b>100%</b>	64%	60%	<b>12%</b>
SP500 Index	64%	<b>100%</b>	86%	<b>1%</b>
NASDAQ Index	60%	86%	<b>100%</b>	<b>14%</b>
<b>Oncology Drugs (%)</b>	<b>12%</b>	<b>1%</b>	<b>14%</b>	<b>100%</b>

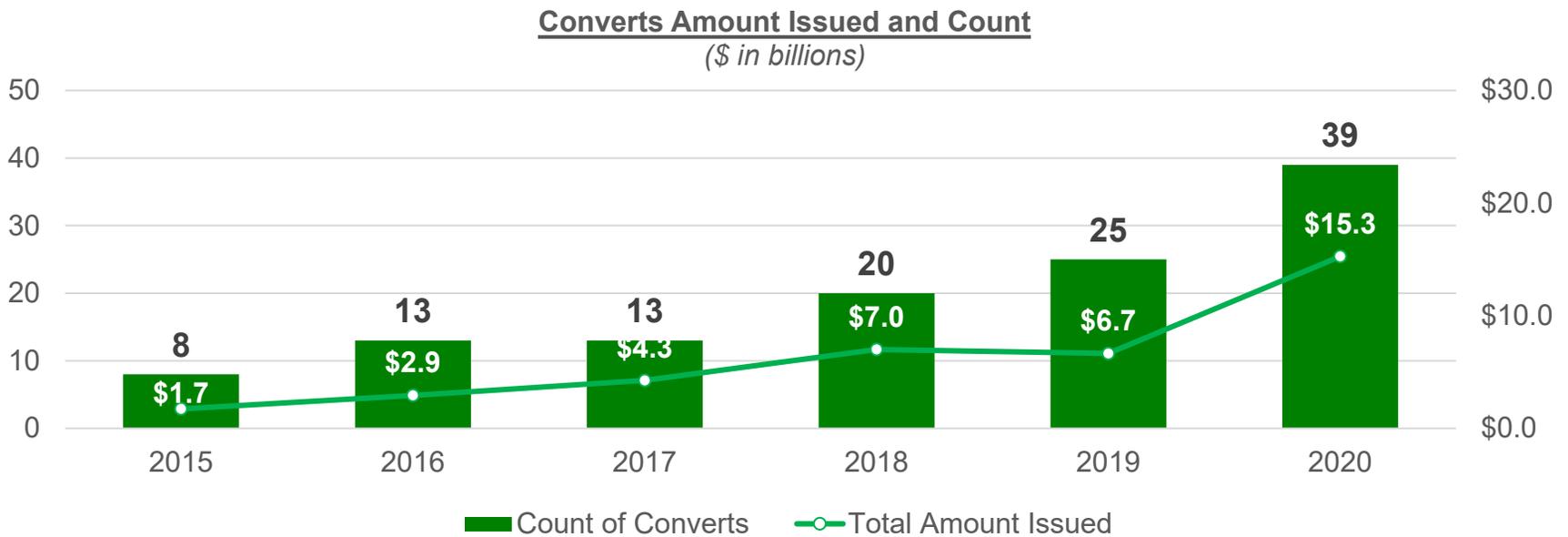
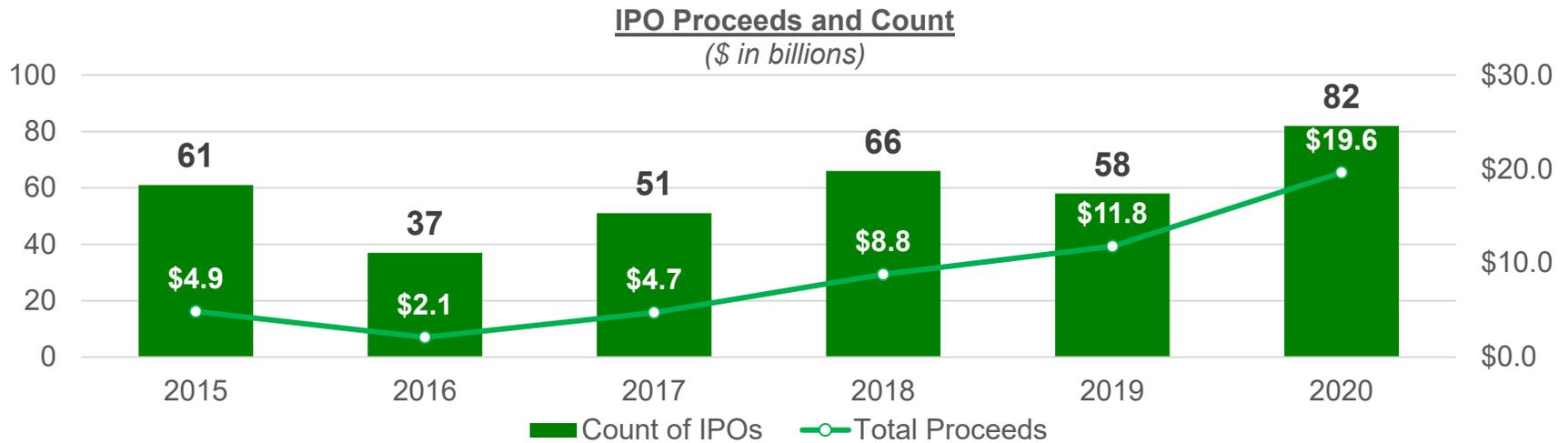
# Small and midsize companies (target borrowers) are involved in a majority of newly approved drugs

Drug Approvals by Size of Drug Originator



Source: Bloomberg, Pharmakon Advisors

# The life sciences industry has benefited from healthy capital inflows, even in uncertain markets



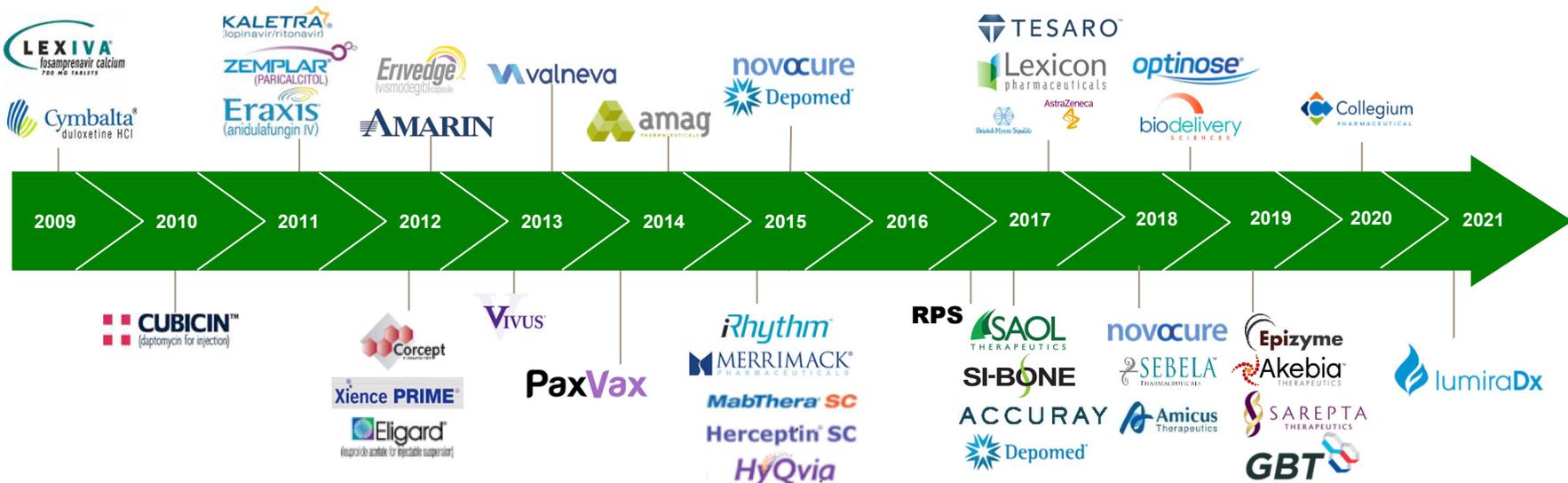
# All four previous BioPharma Credit private funds have returned all capital to investors

## Pharmakon Advisors, LP

- ▶ Founded in 2009; manager of the BioPharma Credit funds
  - ▶ Five private funds and BioPharma Credit PLC, listed in the London Stock Exchange with a \$1.4 billion market cap
- ▶ \$5.1bn committed in 41 transactions
- ▶ 10.4% unlevered weighted average net returns on four private funds after all fees and expenses<sup>1</sup>

Historical Investment Performance as of March 2021 (Private Funds) <sup>1</sup>					
Private Fund	I	II	III	IV	V
Launch Date	June 2009	March 2011	February 2013	December 2015	June 2019
Amount Raised	\$268.9m	\$363.1m	\$500.0m	\$512.9m	\$907.9m
Amount Invested	\$263.7m	\$343.0m	\$463.0m	\$512.0m	\$652.5m
Net MOIC	1.23x	1.24x	1.30x	1.27x	N/M
Unlevered Net IRR	11.3%	6.8%	11.3%	11.7%	N/M
Status	Termed	Termed	Termed	Termed	Investing

### Investment History



1. Projected Internal Rate of Return to investors after fund fees and expenses (weighted average of four previous funds.). Past performance is not an indication of future performance

# Appendix

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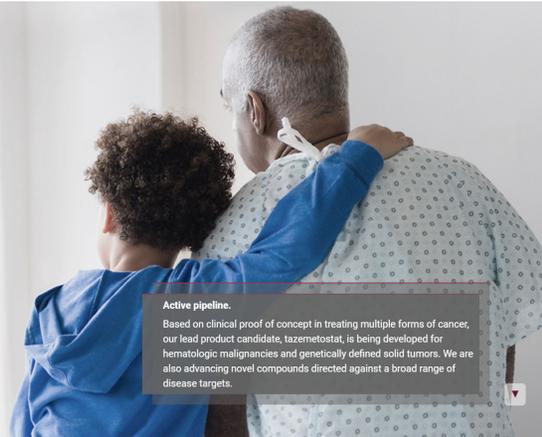
# \$300m senior secured corporate loan



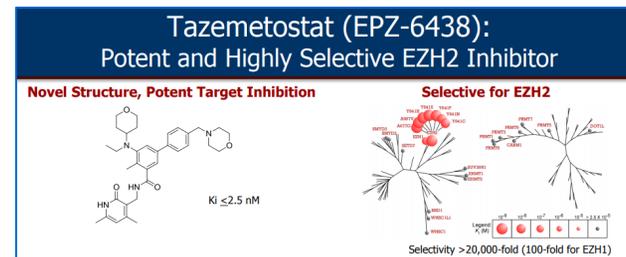
<b>Investment:</b>	
<b>Investment Date:</b>	March 29, 2021
<b>Upsize Date:</b>	
<b>Structure:</b>	Secured Loan
<b>Borrower:</b>	LumiraDx Investment Limited
<b>Loan Amount:</b>	\$300m
<b>BPCR Share:</b>	50%
<b>Cash Balance (6/30/21):</b>	\$245m
<b>FY20 Sales:</b>	\$139m
<b>Maturity:</b>	March 2024
<b>Coupon:</b>	8.00%
<b>Amortization:</b>	Bullet
<b>Fees:</b>	2.50% upfront, 1.50% upon repayment + warrants
<b>Prepayment Terms:</b>	2 year make whole plus 1% if prepaid before maturity

- ▶ **LumiraDx:** A next-generation point-of-care (POC) diagnostic company addressing the current limitations of legacy POC systems by bringing lab-comparable performance in minutes on a single instrument for a broad menu of tests with a low cost of ownership.
- ▶ **Market Cap:** Private
- ▶ **Main Product:** LumiraDx has developed and launched the following diagnostic tests for use with its platform:
  - ❖ SARS-CoV-2 ("COVID-19") antigen and antibody test
  - ❖ International Normalized Ratio (INR) test
  - ❖ D-Dimer test
  - ❖ Two rapid COVID-19 reagent testing kits – LumiraDx SARS-CoV-2 RNA STAR and SARS-CoV-2 RNA STAR Complete
- ▶ During 2020 LumiraDx commenced commercial sales of its SARS-CoV-2 antigen test in Europe and the United States to customers, including the U.K. National Health Service, or NHS, and CVS Pharmacy, Inc., or CVS, and started roll out of a program to supply Instruments and a significant number of SARS-COV-2 antigen test strips to Africa as part of a collaboration with the Bill & Melinda Gates Foundation.
- ▶ **Sales** of \$139m in 2020 with \$112m coming from the fourth quarter. LumiraDx has guided to 2021 sales of \$300mm to \$500mm and 2024 sales of \$1.00bn to \$1.25bn.

REWRITING TREATMENT FOR CANCER AND OTHER SERIOUS DISEASES THROUGH EPIGENETIC MEDICINES



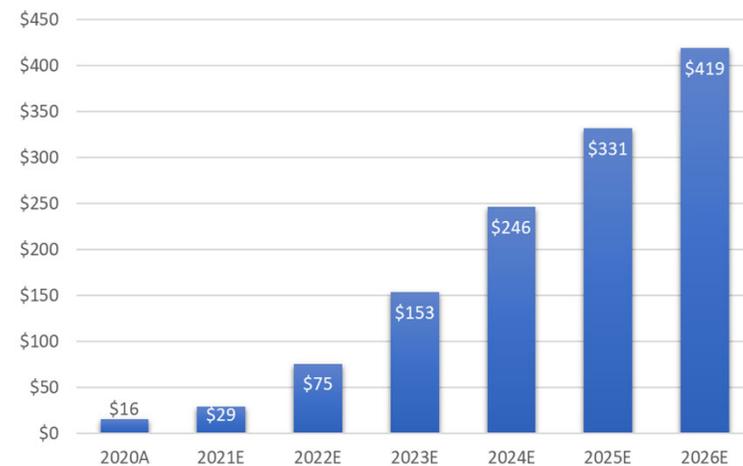
- ▶ **Epizyme:** Biopharmaceutical company focused on cancer and other diseases through novel epigenetic medicines.
- ▶ **Market Cap:** \$519m as of August 23 2021
- ▶ **Cash:** \$244m as of June 30 2021
- ▶ **LTM Sales:** \$22m as of June 30 2021
- ▶ **Main Product:** Tazverik – an oral, first-in-class, selective small molecule drug for the treatment of a broad range of cancer types in multiple treatment settings including epithelioid sarcoma (approved January 23, 2020) and Relapsed/Refractory Follicular Lymphoma (approved June 18, 2020)



<b>Investment:</b>	
<b>Investment Date:</b>	November 18, 2019
<b>Upsize Date:</b>	November 6, 2020
<b>Structure:</b>	Secured Loan
<b>Borrower:</b>	Epizyme, Inc.
<b>Loan Amount:</b>	\$220m
<b>BPCR Share:</b>	50%
<b>Cash Balance (6/30/21):</b>	\$244m
<b>LTM 6/30/21 Sales:</b>	\$22m
<b>Maturity:</b>	November 2025
<b>Coupon<sup>1</sup>:</b>	LIBOR + 7.75%
<b>Amortization:</b>	36 months interest only, then quarterly
<b>Fees:</b>	2.00% of commitment
<b>Prepayment Terms:</b>	3 year make whole plus 3%, 2% or 1% if prepaid before 2nd, 3rd or 4th anniversary

<sup>1</sup> LIBOR loans may be subject to floors and caps

Epizyme Analyst Consensus (\$mm)<sup>1</sup>



Source: Pharmakon, Epizyme public disclosures, Wall Street Analysts  
1 – Analysts estimates as of Q2 2021

# \$550m senior secured corporate loan

## A MULTI-PLATFORM APPROACH TO THE PROBLEM



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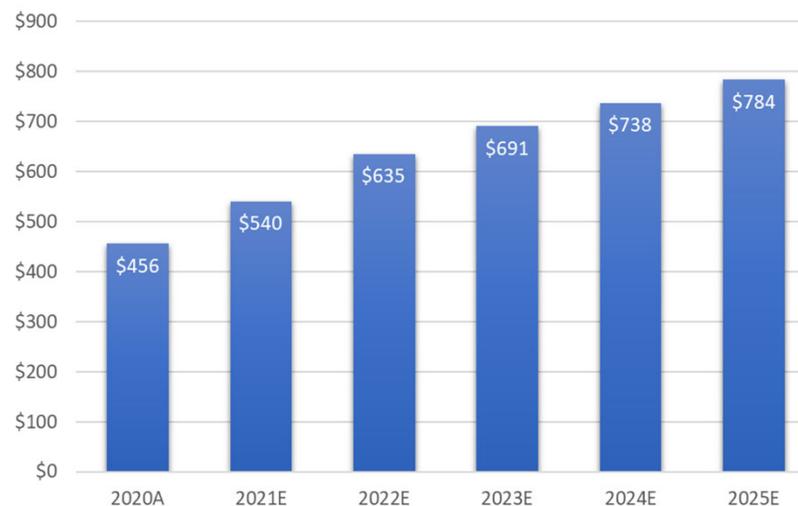
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- ▶ **Sarepta Therapeutics:** Biopharmaceutical company focused on therapies for neuromuscular diseases
- ▶ **Market Cap:** \$5,854m as of August 23 2021
- ▶ **Cash:** \$1,727m as of June 30 2021
- ▶ **LTM Sales:** \$511m as of June 30 2021
- ▶ **Main products:**
  - ❖ EXONDYS 51 (eterplirsen) approved September 2016 for the treatment of Duchenne muscular dystrophy (DMD)
  - ❖ VYONDYS 53 (golodirsen) approved December 2019 for the treatment of DMD
  - ❖ AMONDYS 45 (casimersen) approved February 2021 for the treatment of DMD

<b>Investment:</b>	
<b>Investment Date:</b>	December 13, 2019
<b>Upsize Date:</b>	November 1, 2020
<b>Structure:</b>	Secured Loan
<b>Borrower:</b>	Sarepta Therapeutics, Inc.
<b>Loan Amount:</b>	\$550m
<b>BPCR Share:</b>	64%
<b>Cash Balance (6/30/21):</b>	\$1,727m
<b>LTM 6/30/21 Sales:</b>	\$511m
<b>Maturity:</b>	December 2024
<b>Coupon:</b>	8.50%
<b>Amortization:</b>	Bullet
<b>Fees:</b>	1.75% & 2.95% upon drawing plus 2.00% upon repayment
<b>Prepayment Terms:</b>	2 year make whole plus 2% if prepaid before 3rd anniversary



Sarepta Analyst Consensus (\$mm)<sup>1</sup>



Source: Pharmakon, Sarepta Therapeutics public disclosures, Wall Street Analysts 1 – Analyst estimates as of Q2 2021

# \$200m senior secured corporate loan

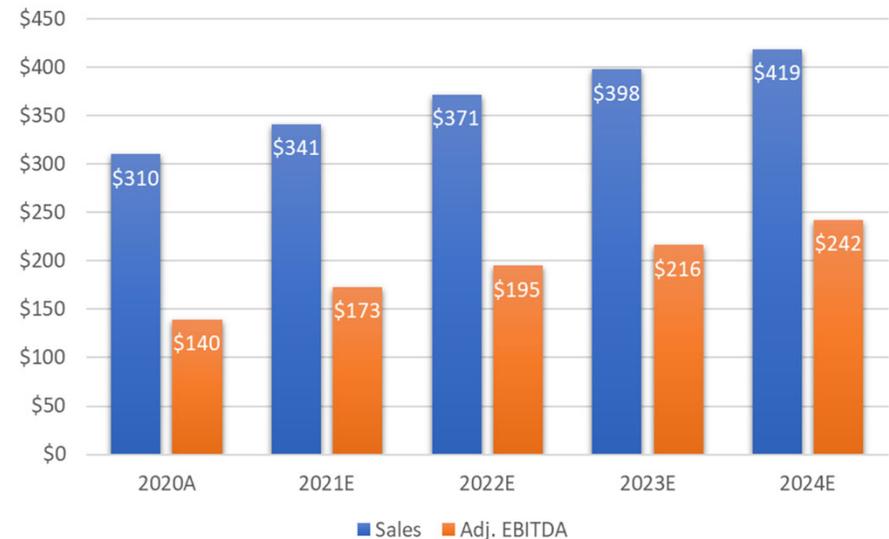


- ▶ **Collegium Pharmaceutical:** biopharmaceutical company focused on developing and commercializing new medicines for responsible pain management.
- ▶ **Loan Balance:** \$113m as of June 30 2021
- ▶ **Market Cap:** \$738m as of August 23 2021
- ▶ **Cash:** \$203m as of June 30 2021
- ▶ **LTM Sales:** \$326m as of June 30 2021
- ▶ **Main Products:** Xtampza® ER, an abuse-deterrent, extended-release, oral formulation of oxycodone and Nucynta® (tapentadol), a centrally acting synthetic analgesic. Collegium has provided net sales guidance for 2021 of US\$155 to US\$165 million in net sales of Xtampza® ER and US\$175 to US\$185 million for Nucynta®.

<b>Investment:</b>	
<b>Investment Date:</b>	February 13, 2020
<b>Upsize Date:</b>	
<b>Structure:</b>	Secured Loan
<b>Borrower:</b>	Collegium Pharmaceutical
<b>Loan Amount:</b>	\$200m
<b>BPCR Share:</b>	83%
<b>Cash Balance (6/30/21):</b>	\$203m
<b>LTM 6/30/21 Sales:</b>	\$326m
<b>Maturity:</b>	February 2024
<b>Coupon<sup>1</sup>:</b>	LIBOR + 7.50%
<b>Amortization:</b>	Quarterly
<b>Fees:</b>	2.50% of commitment
<b>Prepayment Terms:</b>	2 year make whole plus 3%, 2% or 1% if prepaid before 2nd, 3rd or 4th anniversary



Collegium Analyst Consensus (\$mm)<sup>1</sup>



Source: Pharmakon, Collegium Pharmaceuticals public disclosures, Wall Street Analysts  
1 – Analyst estimates as of Q2 2021

<sup>1</sup> LIBOR loans may be subject to floors and caps



# \$150m senior secured corporate loan

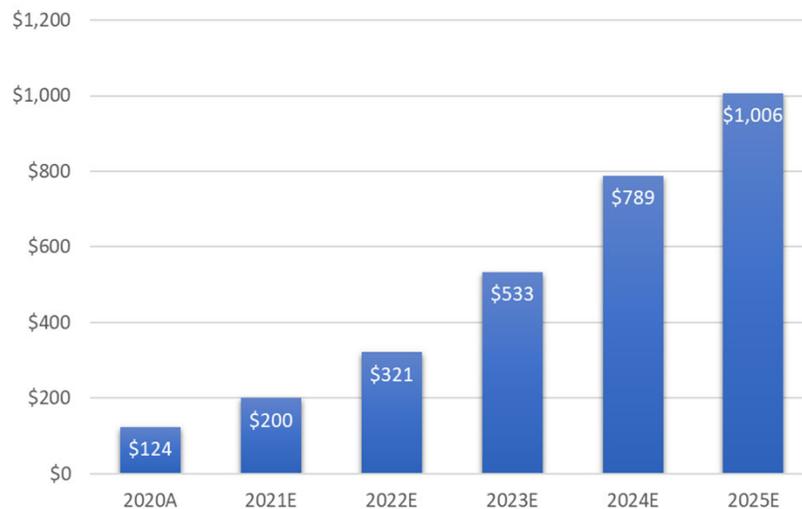


- ▶ **Global Blood Therapeutics:** biopharmaceutical company focused on developing and marketing therapies for sickle cell disease.
- ▶ **Market Cap:** \$1,793m as of August 23 2021
- ▶ **Cash:** \$437m as of June 30 2021
- ▶ **LTM Sales:** \$165m as of June 30 2021
- ▶ **Main Product:** Oxbryta® (voxelotor) approved in November 2019 as an oral, once-daily therapy for patients with sickle cell disease

<b>Investment:</b>	
<b>Investment Date:</b>	December 20, 2019
<b>Upsize Date:</b>	
<b>Structure:</b>	Secured Loan
<b>Borrower:</b>	Global Blood Therapeutics, Inc.
<b>Loan Amount:</b>	\$150m
<b>BPCR Share:</b>	55%
<b>Cash Balance (6/30/21):</b>	\$437m
<b>LTM 6/30/21 Sales:</b>	\$165m
<b>Maturity:</b>	November 2025
<b>Coupon<sup>1</sup>:</b>	LIBOR + 7.00%
<b>Amortization:</b>	36 months interest only, then quarterly
<b>Fees:</b>	1.75% of commitment plus 2.00% upon repayment
<b>Prepayment Terms:</b>	3 year make whole plus 3%, 2% or 1% if prepaid before 3rd, 4th or 5th anniversary



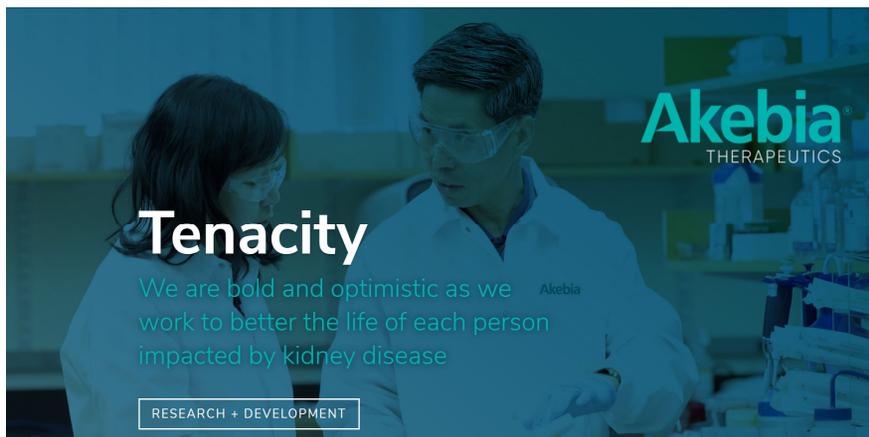
Oxbryta Analyst Consensus (\$mm)<sup>1</sup>



Source: Pharmakon, Global Blood Therapeutics public disclosures, Wall Street Analysts  
<sup>1</sup> – Analyst estimates as of Q2 2021

<sup>1</sup> LIBOR loans may be subject to floors and caps

# \$100m senior secured corporate loan

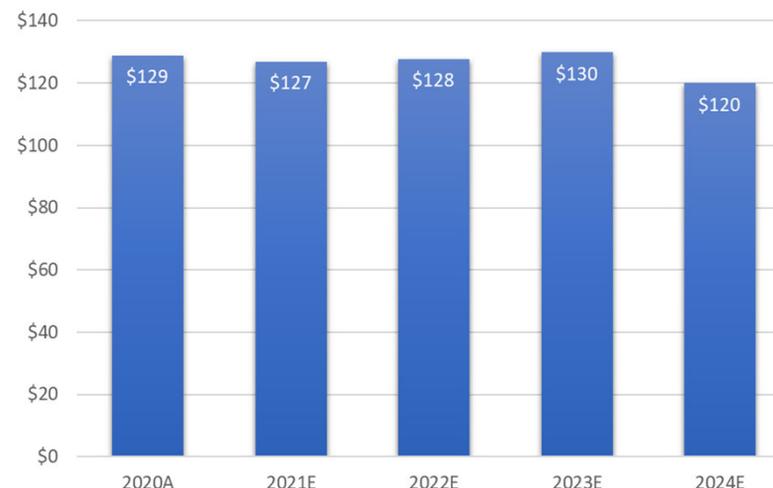


- ▶ **Akebia Therapeutics** is a biopharmaceutical company focused on the development and commercialization of therapeutic for patients with kidney disease.
- ▶ **Market Cap:** \$464m as of August 23 2021
- ▶ **Cash:** \$247m as of June 30 2021
- ▶ **LTM Sales:** \$132m as of June 30 2021
- ▶ **Main product:** Auryxia® approved on September 2014 for Hyperphosphatemia in adult chronic kidney disease (CKD) patients on dialysis, and on November 2017 for iron deficiency anemia in adult patients with CKD not on dialysis. Vadadustat for anemia due to CKD in dialysis-dependent and non-dialysis dependent adult patients (approved in Japan on June 29, 2020).

<b>Investment:</b>	
<b>Investment Date:</b>	November 25, 2019
<b>Upsize Date:</b>	
<b>Structure:</b>	Secured Loan
<b>Borrower:</b>	Akebia Therapeutics, Inc.
<b>Loan Amount:</b>	\$100m
<b>BPCR Share:</b>	50%
<b>Cash Balance (6/30/21):</b>	\$247m
<b>LTM 6/30/21 Sales:</b>	\$132m
<b>Maturity:</b>	November 2024
<b>Coupon<sup>1</sup>:</b>	LIBOR + 7.50%
<b>Amortization:</b>	30 months interest only, then quarterly
<b>Fees:</b>	2.00% of commitment
<b>Prepayment Terms:</b>	2 year make whole plus 2% or 1% if prepaid before 3rd or 4th anniversary



Akebia Analyst Consensus (\$mm)<sup>1</sup>



Source: Pharmakon Advisors, Akebia public disclosures, Wall Street Analysts  
1 – Analyst estimates as of Q2 2021

<sup>1</sup> LIBOR loans may be subject to floors and caps



# \$130m senior secured corporate loan



Investment:	
Investment Date:	September 12, 2019
Upsize Date:	
Structure:	Secured Loan
Borrower:	Optinose, Inc.
Loan Amount:	\$130m
BPCR Share:	55%
Cash Balance (6/30/21):	\$94m
LTM 6/30/21 Sales:	\$60m
Maturity:	September 2024
Coupon:	10.75%
Amortization:	36 months interest only, then quarterly
Fees:	0.75% of drawn and undrawn + warrants
Prepayment Terms:	2.5 year make whole plus 2% or 1% if prepaid before 3rd or 4th anniversary

- ▶ **Optinose:** Specialty pharmaceutical company focused on products for patients treated by ear, nose, and throat (ENT) and allergy specialists.
- ▶ **Market Cap:** \$137m as of August 23 2021
- ▶ **Cash:** \$94m as of June 30 2021
- ▶ **LTM Sales:** \$60m as of June 30 2021
- ▶ **Main product:** XHANCE® – fluticasone propionate nasal spray approved on September 2017 for the treatment of nasal polyps in patients 18 years or older.



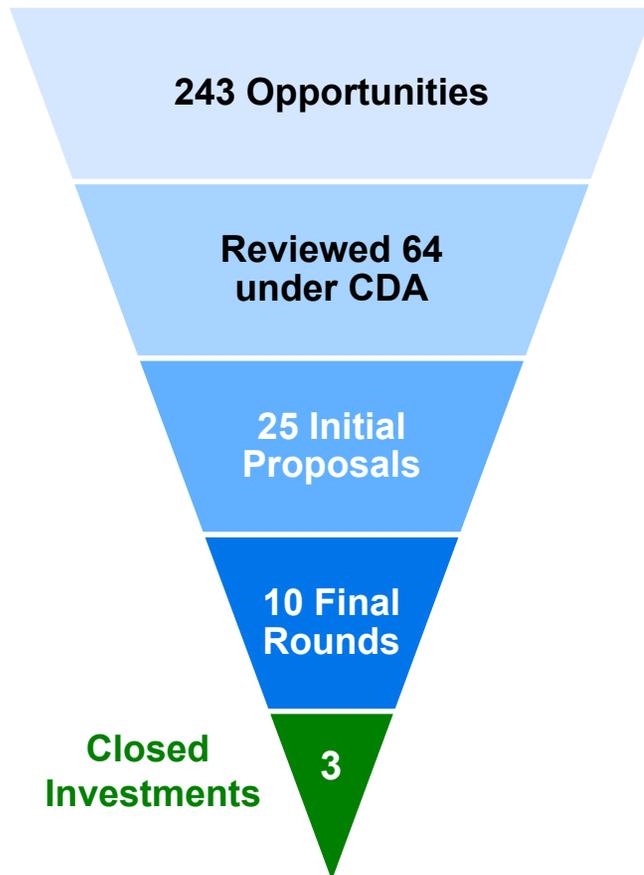
Optinose Analyst Consensus (\$mm)<sup>1</sup>



Source: Pharmakon Advisors, Optinose public disclosures, Wall Street Analysts  
1 – Analysts estimates as of Q2 2021

# Rigorous screening and evaluation of opportunities

## 2020 Pharmakon Opportunities



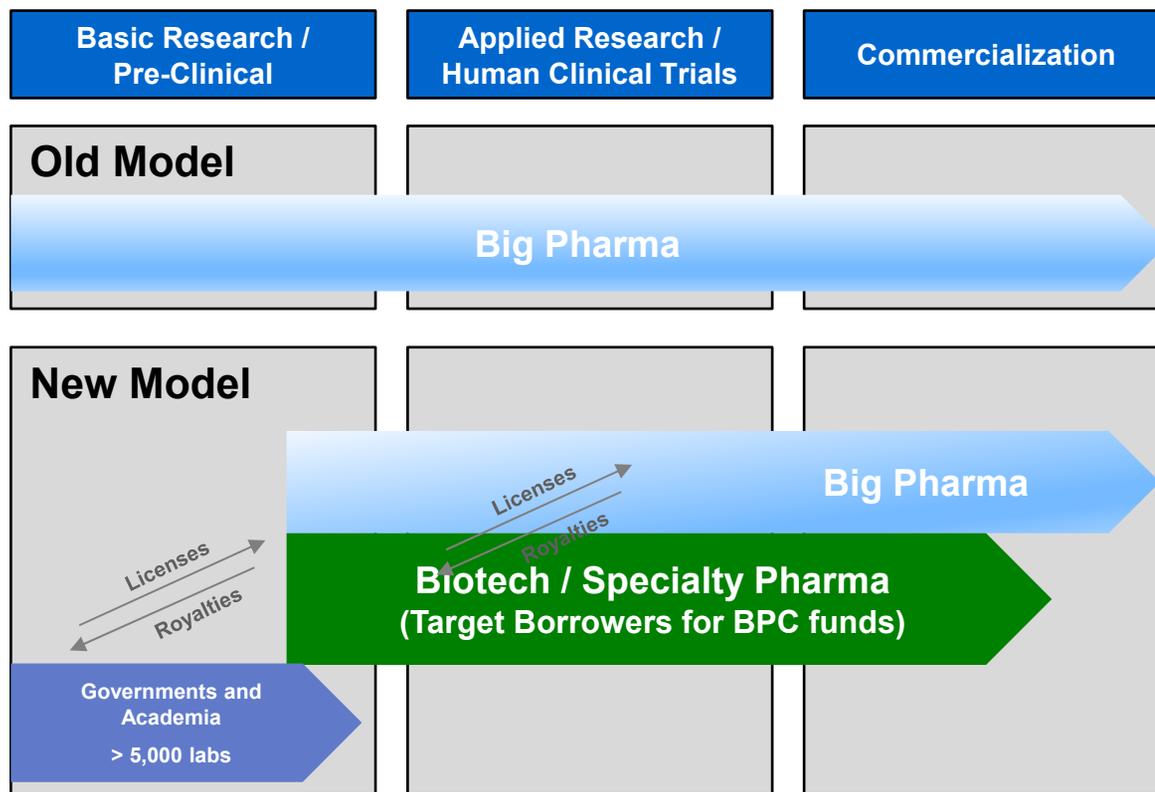
~1% Look-to-Book

## Filters

- 1 Screened 243 opportunities. Initial screen focused on:
  - Viable, marketed product
  - Counterparty with financing need
- 2 Reviewed 64 opportunities under CDA . Performed initial diligence to:
  - Determine preliminary lending value
  - Assess marketer credit worthiness
- 3 Preliminary terms presented to 25 counterparties. Diligence continued to:
  - Confirm suitability, identify and evaluate risks
  - Finalize valuation and projections
- 4 10 final proposals submitted to counterparties. Factors contributing to the acceptance of these proposals include:
  - Loan to value
  - Alternative financing options (equity or converts)
  - Pricing
- 5 Closed 3 new investments for BPCR and BioPharma V. Including committed second tranches, funded \$650mm

**Robust Pipeline for 2021**

# Specialization & Fragmentation of Drug Discovery is Leading to More Lending Opportunities



- *New product approvals result in more companies with attractive collateral for BioPharma Credit funds.*
- *Trend of Big Pharma selling non-core products to smaller companies also creates new lending opportunities.*

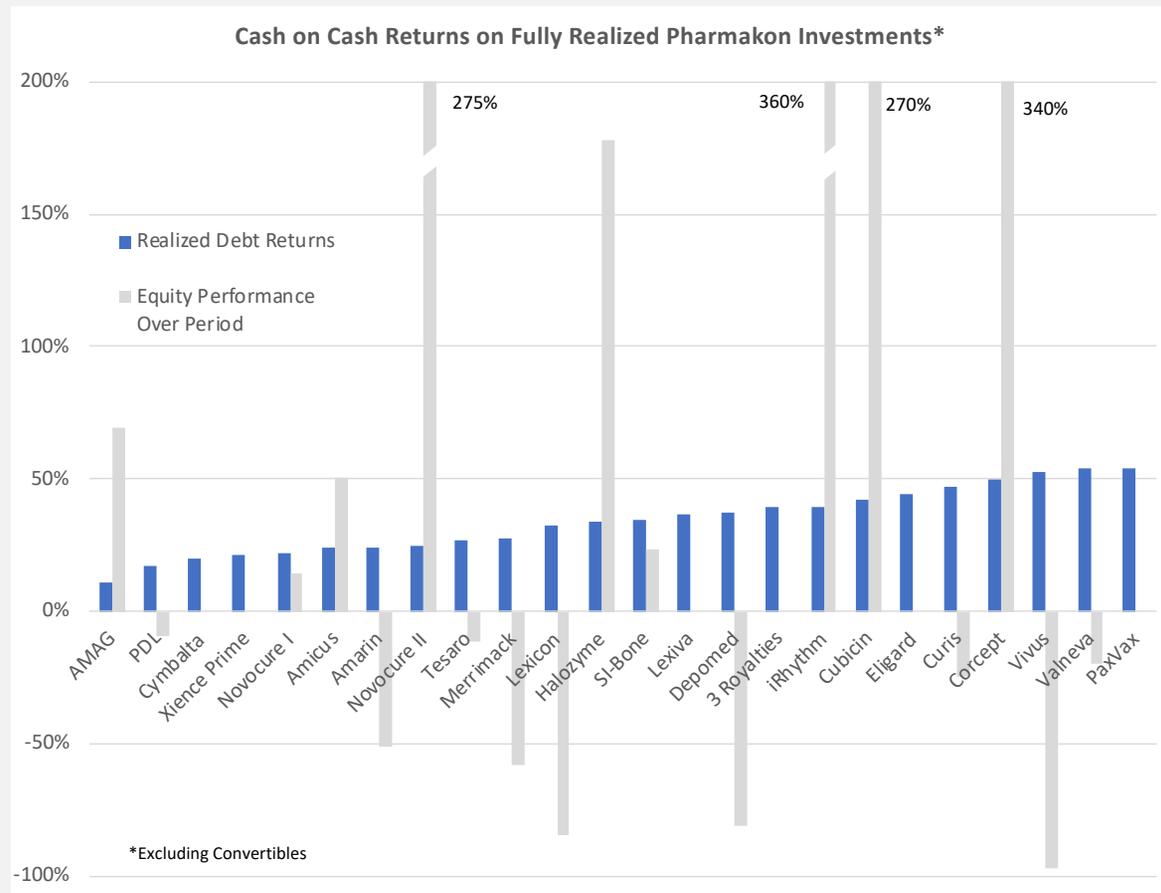
Source: Pharmakon Advisors

# The right structure / LTV helps generate attractive returns on debt irrespective of equity performance

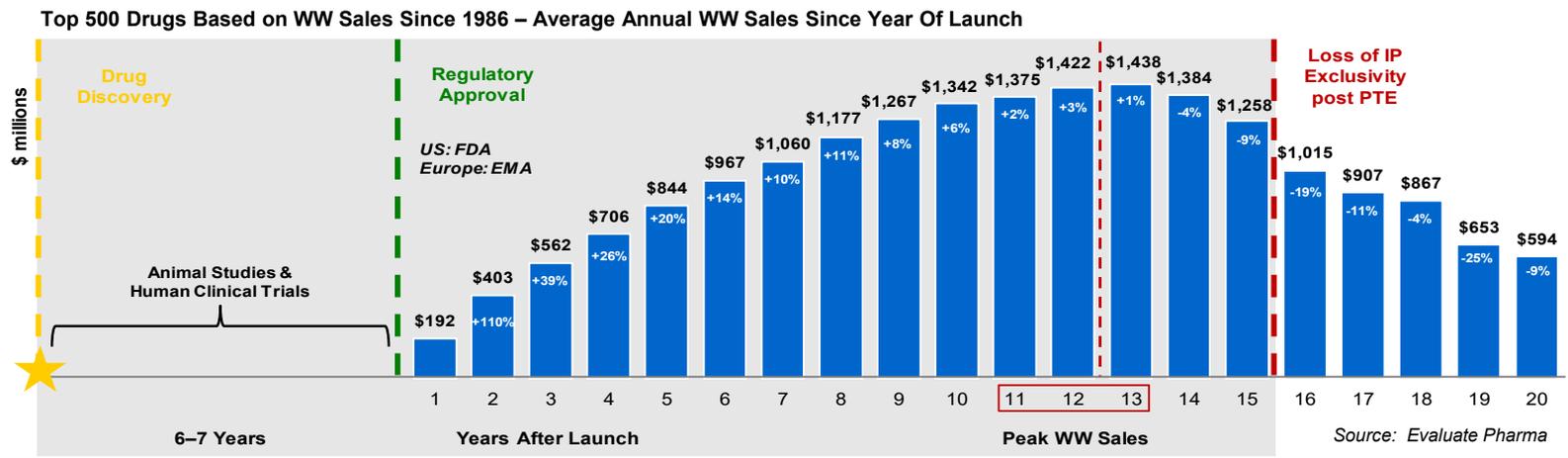
## Life Sciences Debt Investments are less risky and are exposed to less volatility than the corresponding equity investments

- The chart below shows the cash on cash returns of all past Pharmakon investments that have been fully realized (no payments remaining)
- While the realized returns of debt underperformed the equity in a few cases, as would be expected, the right structuring allowed for complete downside protection in debt investments even in cases where equity values dropped by > 90%

- Reasons for equity underperformance include:
  - Failures in pipeline products which, while not part of the credit analysis, can represent a majority of a company's equity value
  - Sales not meeting expectations of equity analysts and investors yet still ample enough to cover debt payments
  - Market volatility
  - Revised market expectations
- Even when product sales have disappointed, appropriate structuring and sizing have allowed past Pharmakon loans to perform well even when the equity has suffered greatly



# Pharma products generate predictable, patent protected cash flows and provide strong collateral across the many stages of product life



Pre-Approval	Early Commercial	Mid Commercial	Mature Commercial	Genericized

**Risk Factors**

- Approval:** Product may never be approved
  - Efficacy / Safety:** Even if approved, may not have the right profile/label
  - Pricing / Reimbursement:** Unknown at this stage
  - Commercial:** High uncertainty
  - Competition:** Other therapies may be approved before target product
  - IP:** Low risk
- Commercial:** Depending on how early, difficult to estimate peak sales with accuracy
  - Pricing / Reimbursement:** Some products may have this resolved
  - Competition:** Should have visibility / diligenceable
  - Efficacy / Safety:** Should have visibility / diligenceable
  - IP:** Low risk at this point
- IP:** The longer a product is in the market the greater the risk of patent litigation from generic manufacturers
  - Others:** While most other risk factors are more predictable at this stage, loan amounts as a function of future cash flows will be greater leaving less room for error
- Pricing / Reimbursement:** Loss of insurance coverage and increasing barriers from remaining insurers
  - Commercial:** While genericized products have "tails" it is very hard to predict them individually

**Risk Mitigants**

- Do not invest or require cash-overcollateralization prior to approval:** Pharmakon will monitor the product's evolution and maintain contact with management to assess future opportunities. In certain cases may structure loans that are over-collateralized with cash prior to the product being approved.
- All about the product and indication:** Innovative products in critical care conditions will have predictable minimum sales, favorable pricing / reimbursement and a reduced risk of competition or safety / regulatory issues
- High Selectivity:** Majority of Pharmakon "No's" occur at this stage
- In depth IP diligence**
- Good predictability of future sales and cash flows:** Potential peak sales becomes easier to predict as more physicians become experienced with the product, safety and efficacy is better understood, and there is greater clarity on competition and reimbursement
- Focus on loan to value:** While cash flows and remaining value of a product are more predictable there is a need to leave a good margin of error. Majority of Pharmakon "Lost Deals" are in this stages because of conservative loan to value
- High Selectivity:** Pharmakon has not yet found an opportunity that meets the right risk/return profile