REPRINT FROM JANUARY 9, 2012

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Ebb & Flow

Treated like royalty

By Stacy Lawrence
Staff Writer

The $1 billion close for **Cowen Healthcare Royalty Partners**' second fund makes it crystal clear that LPs want an investment that is not correlated to the stock market, pays out regularly and offers returns of 2x or more.

The firm said the new fund exceeded its initial target by more than 75% and is the largest ever private equity fund dedicated to healthcare royalty investments. The fund is almost twice the size of Cowen Royalty's first fund, which closed at $506 million in 2008 and is fully committed.

LPs in the first fund already have broken even, said the firm's Gregory Brown. Over the 10-12 year life of the fund, he said LPs will get back at least double their capital.

A total of 75% of the LPs from the first fund participated in the new fund. Cowen Royalty also geographically broadened its LP base. In the new fund, 65% of LPs are based in the U.S., while the remainder are from the EU, Canada, Asia and Australia. LPs in the prior fund were evenly split between the U.S. and the EU plus Canada.

LPs in the new fund include public and corporate pension funds, financial institutions, insurance companies, funds-of-funds and university endowments.

The strategy remains acquiring existing royalties, creating and assuming royalties based on product revenue, and providing loans that are collateralized and serviced by a royalty stream.

"In the wake of the financial crisis, a lot of LPs put a premium on liquidity," said Brown. "Raising long-term money has been difficult, but our cash flow strategy is not correlated to the markets. Our royalties continued to come in and cash flows continued to go to LPs."

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>
> **Gregory Brown., Cowen Royalty**

Cowen Royalty distributes cash to LPs twice a quarter.

Already committed

The new fund has a five-year investment period, but Brown expects it will likely be shorter. The fund already is about 20% committed.

The new fund will make investments of $20-$100 million in commercial-stage biopharmaceutical and medical device companies in the U.S., Europe and Asia, as well as buying out universities and inventors hoping to monetize their royalty interests in products.

Investments include last week's $20 million loan to **Dyax Corp.** (NASDAQ:DYAX). The loan, which may include a second tranche of $56.7 million, bears 12% interest and is secured by the company's phage display technology licenses *(see B24)*.

In June 2011, Cowen Royalty lent $30 million to neurology company **Zogenix Inc.** (NASDAQ:ZGNX). The lender received a 5% royalty on Zogenix's product revenue that steps down to 0.5% as sales increase. Zogenix will repay the loan via $10 million payments on Jan. 31, 2015, Jan. 31, 2016 and Jan. 31, 2017.

In the first nine months of 2011, Zogenix had $25 million in net product revenue.

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