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Deal of the Year:

HEALTHCARE

Emory Drug Deal Turns Heads

Jumbo \$525 million royalty rights payment captures Wall Street's attention

Wall Street is rubbing its hands in anticipation of more to come after Emory University's groundbreaking deal to sell the royalty rights for an HIV drug developed by school researchers. Gilead Sciences and Royalty Pharma paid a whopping \$525 million for the rights, the largest lump-sum royalty payment to a US university to date. The transaction also marked the first time a university used an investment bank to help it negotiate the terms of a royalty sale. Bankers are hoping that this newly aggressive approach universities are taking to monetizing their intellectual property will pave the way for a spate of such deals this year, opening a new source of advisory revenues, particularly as prices for these assets rise.

"Historically, bankers were never involved because the deals were too small," says Dung Nguyen, a director in the global healthcare banking group at Citigroup, which advised Emory on the transaction. "Now there is more potential out there for sizable deals, so there is a good margin."

Gilead, a publicly traded biotech firm, joined forces with Royalty, a New York-based buyer of drug royalty rights, to

outmaneuver hedge funds and private equity firms to win the rights. The strong interest from financial buyers was another unusual twist, say bankers. The cash deal was announced in July and closed later that month. Lazard advised Gilead.

A specialist in infectious disease treatments, Gilead was already licensing the drug in question, which was discovered by three Emory researchers, Dr. Dennis C. Liotta, Dr. Raymond F. Schinazi and Dr. Woo-Baeg Choi. Emory, which had a patent valid until 2021, originally licensed the drug, emtricitabine, in 1996 to Triangle Pharmaceuticals for an annual royalty fee of 20%. Gilead

acquired Triangle in 2003, adding the drug to its portfolio. After the Food and Drug Administration approved emtricitabine for sale in July 2003, Gilead began marketing it under the name Emtriva and in 2004 combined it with another product in its portfolio, Viread. The combination has become a market leader in its class of HIV drugs.

Although universities have been licensing their inventions to the private sector since 1980, when the Bayh-Doyle Act first permitted them to do so, in the past year or so they have become much more aggressive about squeezing every last

DEAL AT A GLANCE

Gilead Sciences and Royalty Pharma buy Emory University's royalty rights for a HIV drug.

Category: Healthcare

Advisers: Lazard (Gilead Sciences); Citigroup (Emory University).

Deal Type: Acquisition (cash)

Deal Size: \$525 million (Including \$35 million in Royalty Pharma stock)

Date Announced: July 18, 2005

Date Completed: July 22, 2005

dollar out of their intellectual property. In mid-2004, Emory decided it would like to do this with emtricitabine, using the proceeds to boost the school's research endowment. About the same time, Gilead wanted to acquire the royalty rights and sought the advice of bankers at Lazard.

Emory decided to invite banks to pitch for the role of adviser, choosing Citigroup for the assignment in early January 2005. "We selected Citigroup because we felt it brought the most to the table," says Michael Mandl, executive VP of finance and administration at the Atlanta-based Emory. The auction was announced in May and took a total of eight weeks.

"We opened the auction like a traditional asset sale, and we solicited the traditional royalty rights buyers," says Citi's Nguyen, who worked on the deal with a team of four bankers and several people from the bank's asset-backed securities group. "What we found was a new group of bidders, the hedge funds. The returns look very attractive to them, and they have the capital to play in this space."

Citi's bankers narrowed the initial field of 20 bidders to six interested parties. Although as the current licensee,

Gilead was the most logical buyer, it didn't want to overpay for what is essentially a financial asset. So to reduce its risk and gain further insight into the royalty market, the Lazard team suggested Gilead join forces with a royalty buyout specialist, eliminating a potential competitor in the process at the same time.

financial bidders also paired up with royalty rights specialists to strengthen their bargaining positions.

The fact that Gilead and Royalty Pharma paid cash for the rights (65% and 35% respectively) helped them win, say Citi's bankers, because they could close the deal more quickly than some of the financial sponsors,

which would have looked to finance the purchase in the debt markets.

Now that Emory has taken the first step, investment bankers see royalty rights sales as a potentially lucrative new niche in their advisory businesses. Nguyen, whose group at Citi initially started working on royalty rights deals in all industries, shifted its focus last summer to concentrate on healthcare. He and other bankers expect to see many more such deals in 2006. One potential transaction, say industry insiders, could come

from Northwestern University, which is considering a lump-sum royalty rights sale for a compound called pregabalin, a treatment for chronic pain developed by chemistry professors at the school. There has been no word so far, however, on whether it has contacted investment bankers. Sources also cite Princeton and New York University as others that may be considering intellectual property sales in the sector.

BREAKTHROUGH DEALS

Israel's **Teva Pharmaceutical Industries** acquired US rival **Ivax** for \$7.4 billion, creating the largest generic pharmaceutical company in the world. The 50% cash and 50% stock deal was considered a watershed moment in the generic drug industry when it was announced in July, mostly because of its sheer size. Lehman and CSFB advised Teva, while UBS advised IVAX. Following a bitter struggle, UK-based **Shire** paid \$1.6 billion for **Transkaryotic Therapies**. The deal was struck shortly before the result of tests of a new Transkaryotic drug that treats a rare childhood disease were returned, and they came back surprisingly positive. Transkaryotic's shareholders revolted, arguing that Shire should pay a higher price in light of the new data, and the company's CEO quit in protest over the proposed deal. The deal squeaked by in a shareholder vote in July, with 52% approving the deal at the original price of \$37 per share. Goldman Sachs advised Shire while SG Cowen advised Transkaryotic.

"It was a counterintuitive strategy for Gilead, which had plenty of liquidity and the best information about the product," said David Low, a managing director who led the Lazard team of four people working on the deal. "We met with some of the players in the royalty buyout field and concluded that, with its great track record and strong capital base, Royalty Pharma was the best fit." Some of the other strategic and

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