PIPV CAPITAL: BREATHING NEW LIFE INTO PHARMACEUTICAL BRANDS

By Alan Hughes of the National Association of Investment Companies

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PIPV Capital (http://phoenixipv.com/) is an NAIC member firm with a unique approach to identifying opportunities in the pharmaceutical space. Based in Philadelphia, the firm borrows from its mythological namesake (the Phoenix) by acquiring and breathing new life into strong, branded, marketed medicines that are off-patent, lack the broad-based appeal for the multinational pharmaceutical companies or have undiscovered ancillary benefits.

The firm is headed by Osagie Imasogie, Lisa Gray, and Zoltan Kerekes, who first began working together in 2000 when they established GlaxoSmithKline Ventures (GSV), the intellectual property venture capital arm of GlaxoSmithKline. Since then they have successfully raised and invested over $1.2 billion in the life sciences space. Founded in 2004, PIPV takes an opportunistic approach rather than focus on specific therapeutic areas and has a two-pronged investment strategy.

The primary focus of the fund (representing 80% of its capital) is acquiring very strong, branded, marketed medicines that are off-patent. Typically, these are medicines that, at their peak, had $1 billion or more in revenue, had patent protection on a worldwide basis and a strong brand globally. When these products go off-patent they will drop typically to 5-10% of their peak year sales. So, a $1 billion product’s sales will drop closer to $50-$100 million as the generics become available at a much lower price point. As a result, the pharmaceutical company pulls marketing, pricing management, sales team from these off-patented products, and they become a pure fulfillment business for them. For PIPV, it is about perspective, “A crumb from an elephant’s meal is a feast for an ant. We are the ants, where a $50-$100 million asset is very important,” says Osagie Imasogie, Senior Managing Partner & Co-Founder.

This $50-$100 million in sales represents a subset of patients who are brand-loyal or for whom the generics are simply not a viable alternative and is a revenue stream that can go on for decades. PIPV buys these medicines from the large pharmaceutical firms that have little interest in sub-billion-dollar products and applies its well-proven tool kit to increase profitability by improving efficiency as well as increasing revenue through, for example, increased, targeted marketing and entering new markets. “That then gives us an opportunity to pay out to our investors a yearly distribution of cash that is equal to five to seven percent of the invested capital,” says Imasogie. “So, our model is very unique because it gives yearly liquidity to our investors while also providing private equity returns.”

The secondary focus of the fund (representing the remaining 20% of capital) is to acquire and develop opportunistic assets where significant upside can be generated by identifying new applications. A good, publicly known example of this is Viagra, which was initially developed to treat cardiovascular disorders and failed in that capacity but went on to generate billions as an erectile dysfunction treatment. “You can pick these assets up at a deep discount to sunk capital. The value is in our ability to connect the dots and in our perspective as an ant,” says Lisa Gray, Managing Partner and Co-Founder. “We don’t do sexy science. It’s commercial insight applied to available and/or published data. It is the data that we look at from an ant’s perspective. Is the medicine 1) safe and if so, 2) does it have biological activity that is relevant to certain disease states, which in most cases are smaller than the ‘blockbuster’ diseases that big pharma requires to have interest in such products?”

One of the fund’s home run deals from this strategy came by way of Ception Therapeutics Inc., a developer of an experimental inflammation drug. Ception acquired a product from a large Pharma company that had passed Phase 1 trials and was in Phase 2 as a broad-based asthma treatment when it failed. However, there were indications that the drug may prove effective against specific subsets of asthma patients— which may not be broad-based enough to spur interest to a large pharmaceutical company – yet can still be profitable for a smaller, leaner organization.
The PIPV team raised roughly $80 million from a round led by Essex Woodlands, a VC firm that plays in healthcare, to re-initiate Phase 2 and test PIPV's hypothesis, which proved correct. It was a viable treatment for adults with eosinophilic asthma. With a modest initial investment and the subsequent capital from Essex Woodlands, Ception was sold in 2010 to publicly traded Cephalon, Inc. for a total consideration of approximately $350 million. Subsequently, additional milestone payments totaling $200 million have been received as the product progressed to approval and market launches in the US and internationally. When all is done and all milestone payments completed, PIPV expects a 66.4% net IRR and 9X multiple on invested capital on the transaction.

PIPV's Funds I and II institutional capital Funds had a single source of capital and totaled approximately $370 million and $600 million, respectively. The firm is currently raising its third institutional capital Fund but this time with multiple investors/LPs, which has a $500 million soft cap. The Fund will continue PIPV's strategy of acquiring revenue-generating, high-quality marketed medicines in the life sciences space, including the pharmaceutical and biotechnology industries. The fund has a four-year investment period and an eight-year term. The principals expect to close it out by 2019 year end.

The firm's secret sauce is operational experience. “We know things that work very well where you can focus on proven approaches to increase revenue and reduce expenses,” says Imasogie. “So, the real trick here is understanding that there is this tremendous amount of power in brands. That is why we buy these mature branded medicines.”