

RTW Biotech Opportunities

Use of Prometheus Biosciences' sale proceeds

In June 2023, RTW Biotech Opportunities (RTWBIO) changed its name from RTW Venture Fund to more accurately reflect the company's full life cycle approach to biotech investing. On 5 July 2023, RTWBIO announced its capital allocation plans for the proceeds received from Merck's acquisition of Prometheus Biosciences which, when announced, was the company's largest holding at 14.8% of NAV. The acquisition price was a 75.4% premium to the pre-bid level. Prometheus is a good example of RTW's long-term, full life cycle investment approach, which supports businesses ranging from new company formation to mid-stage venture to pre-IPO and public markets. Investing in early-stage private assets provides RTWBIO with access to experimental data that typically are not widely available and provides time to build relationships with entrepreneurs and management teams. Given RTWBIO's blend of public and private investments, there is no pressure to sell a company after its IPO.

RTWBIO invested \$8.4m in Prometheus and received total proceeds of \$99.1m (\$6.7m prior to the acquisition plus \$92.4m from Merck), which represented an 11.8x return on investment. The company made a series of investments in Prometheus, initially in November 2020 when it co-led a private financing round to advance Prometheus's lead antibody programme (PRA023). RTWBIO then increased its holding at Prometheus's IPO in March 2021, and participated in a further fund-raise in December 2022 to advance PRA023 into Phase III trials.

Merck completed the Prometheus acquisition on 16 June 2023 and RTWBIO's board has carefully considered the company's capital allocation framework. The biotech sector is recovering from the second deepest and longest bear market in its history, valuations are attractive, fundamentals have improved, and merger and acquisition activity is picking up. Hence, part of the Prometheus sale proceeds will be used to invest in attractive opportunities in private, core public and other public holdings over the medium term.

With tight financing conditions in the biotech sector, RTWBIO will use another part of the Prometheus sale proceeds for royalty financing, which is an example of its ability to offer strategic financing solutions. Capital will be allocated to RTW's 4010 Royalty Fund; there will be no double charging as fees will only be taken at the company level. The board believes that this investment represents an attractive, uncorrelated, income-generating opportunity to complement RTWBIO's core portfolio. Its royalty exposure will be limited to around 15% of NAV including the current royalty holding.

Given RTWBIO is trading at a wide discount to NAV, which the board considers is unjustified, it will initiate a share repurchase programme, which will be implemented over time and at its discretion. Buybacks of up to \$10m are expected, which equates to around 3.7% of RTWBIO's current market capitalisation.

Investment companies Biotechnology

5 July 2023

Price **\$1.26**
Market cap **\$268m**
Total assets **\$365m**

NAV* \$1.72
Discount to NAV** 26.7%

*At 31 May 2023. **Based on current share price and last published NAV.

Yield 0.0%
Ordinary shares in issue 212.4m
Codes RTW (\$), RTWG (£)
Primary exchange LSE
AIC sector Biotechnology & Healthcare
52-week high/low \$1.34 \$0.98
NAV* high/low \$1.72 \$1.40

*Including income

Fund objective

RTW Biotech Opportunities (RTWBIO) is managed by global healthcare specialist RTW Investments (RTW). RTWBIO was launched on 30 October 2019 and is focused on identifying transformative assets with high growth potential across the biopharmaceutical sector. The portfolio contains private as well as publicly listed companies. RTWBIO's performance is measured against an index of small-cap biotech stocks and the NASDAQ Biotechnology Index.

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