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Circassia finds a second way to put investors' money under threat

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Business development decisions have started the clock on a financial time bomb set to go off within the next three months.

When, in 2016, Circassia's cat allergy project crashed in the clinic the company was fortunate to have a respiratory disease pipeline to pivot to. Now, however, precisely this respiratory focus threatens to be the UK group's undoing.

The problem stems from the COPD asset Duaklir, on which a US approval decision is due by March 31: an FDA thumbs-up would trigger a $120m payment to Astrazeneca – money Circassia at present does not have. But a rejection would not get the company out of hot water either, instead making $100m payable to Astra on June 30. While Circassia argues that it has the prospect of a loan, if this does not materialise its solvency is under threat.

Duaklir came to Circassia via a 2017 deal under which Astra washed its hands of a respiratory portfolio acquired for $600m from Allergan, and which Circassia used to bolster a respiratory presence that it kicked off by buying Prosonix the previous year. With Duaklir came a US profit share on the marketed COPD drug Tudorza, and the up-front fee was an undemanding $50m in stock.

Sting in the tail

But there was a sting in the tail: the deal terms included a $100m earn-out on either Duaklir's US approval or June 30, 2019, whichever occurred first.

That obligation might not have seemed like much in 2017, but today it is the most important element in Circassia's investment case. After all, the company said it ended 2018 with cash, equivalents and short-term deposits of only £41m ($54m).

And it gets worse: in December, rather than focus on precisely how the looming obligation was going to be met, Circassia paid Astra another $5m for full rights to Tudorza. This put it on the hook for an extra $20m in the event of Duaklir's US approval, taking the grand total potentially payable to Astra this month to $120m.

With a market cap at just £125m Circassia looks unlikely to pull off an equity raise. Instead the company has floated the idea of "third-party funding", which presumably means a licensing deal or the taking on of debt. Failing that, there is also apparently the possibility of a loan facility to be provided by Astra.

Circassia pointed out to *Vantage* that such a loan with Astra had been agreed in principle to have a five-year repayment period, and if this comes to pass the group's immediate existence will not be under threat.
But investors look likely to be hit heavily: a loss-making company gearing up its balance sheet is rarely good news, and the debt it takes on is likely to carry a punitive rate of interest.

No change

Of course, were Duaklir and Tudorza game-changing products there might still be a way for Circassia to snatch victory from the jaws of defeat. Sadly, however, this is not the case.

When the Astra deal was done Tudorza sales were already falling, and the best that can be said is that the rate of prescription decline has slowed since then. Last year US sales amounted to only $25m, down from $80m two years earlier.

Duaklir is marketed in Europe, but in the US it has had a tortuous development path; *EvaluatePharma* sellside consensus is for 2024 global revenue to reach an uninspiring $203m. Astra recently launched a competing drug, the Pearl Therapeutics-derived Bevespi Aerosphere, which has disappointed.

Today Stifel analysts, who rate Circassia with a “sell”, warned that a cash crunch was coming. It is hard to judge whether being on the hook for $120m while boasting two mediocre approved drugs is less bad than facing a $100m obligation with one. Circassia investors will find out soon enough.

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