Moneycab – Interview with Andreas Wicki, CEO HBM Healthcare Investments

Moneycab: Mr Wicki, in the last half you cashed in positions in listed companies in your portfolio to generate cash for opportunistic acquisitions. Does this mean you are expecting a sharp correction?

After an exceptionally large number of portfolio companies went public, the share of listed companies had risen to over 60% of total assets. Since biotech valuations were relatively high in general and we need a continual inflow of liquidity for new investments and disbursements to our shareholders (3-5% relative to share price per year), we seized the opportunity to increase our cash component.

Creeping inflation and the potential divestment of overvalued tech stocks could put a further damper on euphoria in the biotech sector as well. An equity market correction should always be expected in the current market environment. However, the healthcare sector remains in strong demand overall and our portfolio is well positioned. We have weathered our fair share of storms over the past 20 years and prepare ourselves as best we can.

Which area do you think offers the best opportunities?

Oncology is the focus of the most research and development, so the number of drug candidates in clinical development is by far the highest here. Although the market in general is already very competitive, there are still a lot of cancer types that cannot be treated at all, or only unsatisfactorily or with severe side effects. Precision oncology is an area that is seeing a lot of activity at the moment.

Chemotherapies have for a long time dominated the drug treatment of cancer. While these highly toxic substances inhibit the division of tumour cells, they also damage healthy cells and as a result frequently cause severe side effects. Targeted therapies in the fight against cancer are often likened to snipers, by contrast. These small-molecule drugs, which can often be taken as tablets, target specific genetic changes that play a decisive role in the growth of certain tumours. Due to their mechanism of action, targeted therapies are tailored to specific molecular changes in tumours, irrespective of the tissue of origin.

The area of neurological disorders likewise offers a lot of potential. Practically no new drugs were authorised for a prolonged period, resulting in a pronounced medical need. Harmony Biosciences (narcolepsy with/without cataplexy), Neurelis (epilepsy) and Biohaven (migraines) are just a few examples of innovation in our portfolio. The drug Wakix from Harmony was authorized by the US FDA in November 2019 and saw very brisk sales on launch. The same is holding true for Nurtec ODT from Biohaven – a migraine medication in tablet form that is used in the acute treatment and prevention of migraines.

Like with Basilea before it, HBM Healthcare Investments now has a cluster risk with Cathay Biotech because its price has shot up so sharply. What will happen once the holding period has expired?

We have invested a total of 38 million US dollars in Cathay Biotech since 2006, and our book value has risen to over 636 million US dollars thanks to the company's strong performance. The company generates sales in the region of 300 million US dollars, its operations are extremely profitable and it is one of the leading firms in the field of synthetic biology. Cathay has now grown to become one of the top fifty companies on the Shanghai Stock Exchange

STAR Market. It has made major investments in expanding its production capacities in recent years. Analysts forecast that its sales will double in the next two to three years. Other than in terms of portfolio weighting, the situation is not comparable with that of Basilea, which at this stage exhibited risks typical for biotech. We will conduct a thorough review of our investment situation once the lock-up period has expired in August 2023 and then make a decision in line with our portfolio management principles.

In ConnectRN you have invested in a digital intermediary platform for nursing staff in the USA. Isn't there anything similar in Europe? There’s a shortage of specialists here too, after all.

The intermediary market for nursing staff is highly fragmented and inefficiently managed. In Europe, the field is largely occupied by traditional intermediaries. Another complicating factor are the particularities and regulations of each individual country, which makes it difficult to offer broad geographic coverage. ConnectRN was founded in 2015 and offers a similar concept to “Uber” on the basis of an app where nurses and carers can pick up shifts as individual contractors. The key to success is reliable and easy-to-use technology coupled with training and support for the contracted workforce. The company is currently benefiting from the prevailing shortage of specialists and is posting strong growth.

Fangzhou, operator of the Chinese healthcare service platform Jianke.com, is another company that has come out on top from the coronavirus crisis. Do you think that this company, which you hold in your portfolio, will go public as well?

An IPO is always a viable option to finance future growth. We are currently invested in multiple companies that are engaged in online drug sales. These include Farmalatam in Latin America, Tata 1mg in India and Fangzhou, as mentioned earlier, in China. Access to medicines can be problematic in these countries. The market potential for digital healthcare services including drug prescriptions and delivery is huge; there is also a lot of experience in the area of software development through IT specialists.

WuXi Healthcare Ventures is another significant investment among your funds that was founded and is managed by a Chinese management team. How did you come by this position?

We have had a good relationship with the team of founders, including the CEO and Chair of the Board of Directors of WuXi App Tec, Dr Ge Li. WuXi App Tec is one of the largest providers of research, development and manufacturing services in the field of small molecules and biological drugs and has a market valuation of 60 billion US dollars. Some time ago, Wuxi App Tec has split off WuXi Biologics, another listed company with a capitalisation of around USD 60 billion. More recently, WuXi Healthcare Ventures Fund II was spun off from WuXi App Tech in 2015. The fund contains CStone Pharmaceuticals, a prominent and extremely successful company. The fund has to date generated more than 14 times the capital invested in CStone.

Investments in third-party funds are generally made for strategic considerations – for example in regions where we do not have a standalone local presence or for the purpose of securing access to promising companies in development phases, sub-sectors and technologies that lie outside our core focus or where we are unable to provide the resources needed to manage them ourselves.

Do you have any new companies from the DACH region on your radar?

We have some existing portfolio companies in the DACH region. The latest addition is Numab Therapeutics, where recently we invested 17 million Swiss francs. The founder used to be head of the research and development department of ESBATech – an HBM portfolio company that was acquired by Novartis. The company, based in Wädenswil/Switzerland, develops a new type of therapeutic agents for serious diseases such as chronic inflammations or cancers. One of its main differentiation points is a plug-and-play platform that speeds up the process for developing specific biotherapeutics.

We are also substantially invested in Swixx BioPharma, domiciled in Baar/Switzerland, since several years. Swixx offers representation business to international biopharma companies in countries in Central and Eastern Europe. With 800 employees, Swixx BioPharma is the largest independent agent for prescription drugs working for research-based companies in these countries.

As part of our investment process, we continually evaluate companies from Germany, Austria and Switzerland.

You have committed an investment exceeding ten million dollars to US company Odyssey Therapeutics. This is developing a platform of novel antibodies (V bodies) to treat cancer and autoimmune disorders. What does this involve?

V bodies belong to the group of nanobodies and consist solely of heavy-chain antibodies. This has several advantages, specifically that they are more readily soluble in water, they have a higher tolerance to heat and they exhibit greater stability. Their smaller size and special shape mean that they have the potential to penetrate deeper into the tissue and thus also to bind to antigens (foreign substances) that conventional antibodies have difficulty accessing. They are also easier to produce.

Exciting. I've only heard of Y-shaped antibodies before.

Odyssey Therapeutics is currently in the concept phase and is working on potential antibodies that are produced naturally in alpacas. Blood samples taken from the treated animals are then used in the lab to derive genetic information for novel V antibodies. Reduced to their minimal component, they can be manufactured in bacteria or yeast as so-called nanobodies which are ten times smaller than normal antibodies.

Hasn't HBM ever been tempted to get involved in developing vaccines against SARS-CoV?

For many years, vaccines were the domain of the big pharmaceutical companies due to capacity and production considerations, which are outside the focus of our investments. In addition, the development of vaccines was fraught with repeated setbacks, especially when it came to smaller and medium-sized enterprises – among them the company Dendreon.

You were also involved with Moderna...

In the case of Moderna, while, specifically, we considered the mRNA technology to be promising, before the outbreak of the COVID pandemic it was too early in our opinion to make reliable estimates of the potential areas of application and revenue. Experienced had shown us that it took 16 years for Alnylam to obtain authorisation for its first drug called Onpattro (patisiran) based on RNAi technology. At end-2019, Moderna was already in clinical trials with 21 programmes, four of them in phase II. We deemed the valuation to be very ambitious at that time; something that, with the benefit of hindsight, proved not to be worth the paper it was written on “thanks to COVID”.

Currency hedging was scaled back by 70% within the space of six months. Do you forecast a stable US dollar?

With interest rates in the USA expected to rise, we forecast a stable to mildly appreciating US dollar in the short to medium term. We are keeping a close eye on the currency situation and are poised to respond flexibly to changing circumstances.