Andreas Wicki, CEO HBM BioVentures
Wednesday, 16 June 2010
Interview, Moneycab.com

Andreas Wicki, CEO HBM BioVentures

(By Bob Buchheit)
(Unofficial translation of an interview in German)

"For a successful deal, you need a company that sells well-positioned products and a management team with an intricate knowledge of their sales markets and the other parties active on them. In such cases, it is almost always possible to find a buyer that is looking to increase sales or gain market access."

Mr Wicki, having redeemed the very sizeable convertible bond, HBM BioVentures is once again 96% equity-financed. You are expecting cash inflows from the sale of investments, which should then allow for further new investments. Can you divulge who is on your emerging companies wish list?

We will increasingly be concentrating on more mature companies which already have a market presence and are cashflow-neutral, at least. This will allow us gradually to reduce the development risks in our portfolio, where the failure of a drug leads to a major erosion in a company's investment value. Geographically, we will be focusing more and more on Europe and Asia.

The sale of Brahms in September 2009 yielded twenty-two times the capital you originally invested. That's a huge return, even for the most hard-nosed venture capitalist. What are the decisive factors in a private equity investment like this one turning out so well?

You need a unique product or an outstanding, saleable technology. The company must also be managed successfully. At Brahms – as is generally the case with our portfolio companies – our own experts and third parties we know and trust work together to implement strategy and organisation, so that standards are high from the very start. In contrast to an investment fund, our people take on what you might describe as entrepreneurial co-responsibility. Other important factors are careful investment selection, an attractive entry price, and an investment structured with a view to its future sale.

> ***"In contrast to an investment fund, our people take on what you might describe as entrepreneurial co-responsibility."*** *Andreas Wicki, CEO HBM BioVentures*

Successful exite are everything in the private equity sector. Right now, HBM BioVentures has 35 holdings. How many exits, on average, would you be aiming for over the next few years?

Many of our investments have matured over the years. Exit potential over the next 12 to 24 months exists for large and small investment holdings alike, be it through trade sales or IPOs. We have been able to sell or go public with four investments over the past year, and we're confident that we can maintain this momentum.

If, in the future, HBM BioVentures is going to be investing more in companies that are already at a more mature stage of development, don't you run the risk of depriving start-ups of venture capital investors? You aren't the only company to be adopting a more cautious approach.

To us, an investment is attractive if a potential portfolio company has already had some initial success, even if it is still developing, as is the case with some. We continually invest significant sums in follow-on financing, and thereby support innovation. We have never financed start-ups, in fact. There is less money available for early-stage financing at the moment – that's true. But the situation also has its upside, as it may well go hand-in-hand with improvements in quality at the companies that are being financed.

Eighteen months ago, there were rumblings among insiders that it might prove difficult to redeem your convertible bond – yet you have done so convincingly, in stages. This has taught you to stagger your repayment commitments more sharply. Medium-term, would you consider alternative forms of financing if the biotech market experienced a revival?

A moderate degree of external financing might still appeal, especially given interest rates at present. But we do not believe that financing that is linked in some way to equity is in the interests of our investors for the time being.

Around 15% of your invested assets are held in venture capital funds. When are you planning to reduce these holdings?

Most venture capital funds have begun to make repayments to their limited partners – like HBM BioVentures – after selling their own investments. Since many of these funds made their initial investments some years ago, we expect that the money we will receive will exceed any potential draw-downs from us. Such repayments of funds therefore will gradually reduce the size of investment holdings in third-party funds.

For years now you have been wanting to reduce the discount between the net asset value of HBMN shares and their market price. Even share buy-backs have had little effect so far. Your equities are still trading at a 30% discount, even though you have repurchased 4.7% of outstanding stock over the past financial year. What is your message to disgruntled investors?

HBM BioVentures can hold its head high in comparison with other investments in the same sector over the last nine years. In themselves, the investments have earned money, but foreign currency losses (especially on US dollar investments) have cost us considerably, despite our hedges. We remain convinced of our portfolio's investment potential.

> ***"Successes and failures are evenly spread, regardless of whether the investments have been in Switzerland, in Europe, or in the USA".***

Geographically, you are aiming to invest more heavily in Europe. That said, the share price records of smaller biotech companies in German-speaking countries – and especially in

Switzerland – are a sorry sight wherever you look. Arpida, Addex, Bioxell, Cytos, Newron, Santhera, and even Basilea have been disappointing. What went wrong, and how can it ever be put right?

There are still many promising companies in Europe. Successes and failures are evenly spread, regardless of whether the investments have been in Switzerland, in Europe, or in the USA. As I mentioned earlier, the key is to finance unique products or outstanding technologies that can cure or at least treat conditions for which no effective therapies yet exist.

With ANAWA and Clinserve – companies in which you had a personal stake – you have set an example of how to establish and then sell companies successfully. What are the key factors in a successful deal?

You need a company that sells well-positioned products and a management team with an intricate knowledge of their sales markets and the other parties active on them. In such cases, it is almost always possible to find a buyer that is looking to increase sales or gain market access.

Management fees were reduced by six million francs last year. Together with these charges, your total expense ratio has recently topped 2% of invested assets. Can HBM BioVentures bring it below the 2% mark?

We have cut management fees by a third and also have other costs under control. HBM BioVentures' total expense ratio (TER) has been under 2% for most of the time since our foundation. This is comparable to or lower than many mutual funds, although managing them is much less time-consuming.

Andreas Wicki

Andreas Wicki is a successful businessman and investor in the healthcare sector, and has more than twenty years' experience in the pharmaceutical and biotechnology industry. He was previously co-owner and managing director of ANAWA Holding AG and Clinserve AG, two contract-based research companies handling analysis and logistics for clinical and pre-clinical study samples. Wicki studied chemistry and biochemistry at the University of Bern, ultimately earning his doctorate. He is a former member of the Board of Directors of Basilea, and is an active director of Buchler GmbH, Pacira Inc., PharmaSwiss SA, HBM Partners Ltd and HBM BioVentures (Cayman) Ltd.

HBM BioVentures

As a venture capital company, HBM BioVentures invests world-wide in some 35 mature young companies in the biotechnology/human medicine, diagnostics and medical technology sectors. The primary products of many of HBM BioVentures' portfolio companies are either at an advanced stage of development or already available on the market. The company focuses on unlisted emerging companies. Two thirds of investment capital is invested in private companies with high value creation potential. HBM BioVentures has a broad shareholder base and is listed on the SIX Swiss Exchange (ticker: HBMN).