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Andreas Wicki, CEO HBM Healthcare Investments AG

"The importance of biotech as the backbone of innovation of the pharma industry is growing all the time."

For almost 20 years, HBM Healthcare Investments AG – which is listed on the stock exchange – has made international investments in privately held companies that are in early phases of development, as well as in listed shares from the industry. As biotechnology matures, the companies contained in the portfolio are increasingly going public or attracting profitable takeovers that increase the value of the HBM Healthcare portfolio and thus drive up the share price, which recently reached a new high of CHF 299. The IPO of Cathay Biotech in the new STAR segment of the Shanghai stock exchange boosted the NAV by 13.7%. The CHF 37 million that have been invested since 2006 have swelled into CHF 613 million as a result. In an interview with schweizeraktien.net, CEO Andreas Wicki provides serious insights into the healthcare industry, mentions investment trends by name and talks about HBM Healthcare's specific investment strategy.

Congratulations on the excellent share price performance of HBM Healthcare! Has the share put on so much this year in spite of or precisely because of the pandemic?

This great result is due to successful clinical studies, IPOs and company sales from the portfolio of private companies. The healthcare sector as a whole is current being buoyed by extremely positive sentiment, since companies in the biopharma industry are viewed as key players in fighting the pandemic. The sentiment is also a reflection of the fact that there are currently a lot of IPOs taking place in the US compared with prior years when activity was relatively quiet during the summer months.

Isn't biotechnology – boosted by the positive news on the development of vaccines or the therapeutic effects of remdesivir in coronavirus patients – just experiencing higher acceptance in society and especially among investors than it did before?

The coronavirus crisis has reinforced the standing of companies in the healthcare sector as suppliers of innovation, for example in the form of new medications, or of adequate infrastructure.

The fog that has been hanging over the sector for so long due to the debate on supposedly overpriced medications has largely dissipated. This is benefiting the sector. A company's valuation from a fundamental perspective is once again starting to play a greater role. This is the sector's moment to shine and to build on its extremely solid fundamentals. Never before have there been so many drugs in clinical development by biotechs as there are today. The importance of biotech as the backbone of innovation of the pharma industry is growing all the time.

According to your quarterly report to 30 June, infectious diseases account for 2% of the portfolio, and immunology/inflammation for 13%. For non-experts: which category does the stimulation of an immune response to the coronavirus, which is currently being pursued by the majority of vaccine developers, fall under?

Companies taking approaches like these are assigned to the “infectious diseases” category. We are not invested in any companies at the moment that develop vaccines. COVID-19 is not an investment theme we are focusing on outright.

Major obstacles stand in the way of a vaccine before it can be manufactured as a safe, effective medicine in hundreds of millions of doses and made available to the population at large. Lastly – but no less importantly – there is the question of the price tag attached to such a vaccine. Many companies have said they will be offering it at cost. In our opinion, the big pharma companies have the advantage. They have the necessary infrastructure and expertise, but they don’t fall within HBM’s investment focus.

Have you restructured or realigned your portfolio in recent months? And, if so, how?

No, we are sticking to our long-term orientation for the portfolio. Our focus is on companies that develop innovative medications for serious or chronic illnesses. There is still a lot of unsatiated demand for medications to treat diseases that do not yet have therapies or cures.

Why should investors bet not only on listed companies, but also on private ones in the healthcare sector?

In the healthcare sector, for example, it can be a good idea – as a complement to core investments in the pharma industry – to secure early access to high-potential “innovation leaders” positioned upstream in the value chain by investing in private biotechnology companies. The easiest way for private investors to invest in private equity is probably through listed private equity. Traditionally, private equity investments were open only to a select group of investors which had a specific investment size and met applicable statutory and organisational requirements. In the case of listed private equity, such as HBM Healthcare investments, a private investor can buy or sell shares on a daily basis. Another advantage of the HBM participation model is that, depending on the market situation, the company may have a higher ratio of private investments one day, and then a higher allocation of listed investments the next.

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What makes HBM Healthcare different is its higher weighing of privately held life science companies, which in the best case scenario go public or become the target of a takeover bid. How can non-HNWI private investors gain access to such investments?

HBM has been on the scene for almost 20 years now and has a large global network to important stakeholders in the industry – to founders, to companies, to scientists and researchers, to decision-makers in the research and development departments of Big Pharma and biotech, and to a wide range of financial intermediaries. We like working with companies we've shared successes with in the past. That way, everyone knows what they can expect from – and expect of – one another. HBM cultivates close contacts with other specialised investors around the world. We also maintain a presence at the major industry conferences. HBM receives around 1,000 business plans annually from companies in this way, of which in recent years 8 to 12 have made it into the portfolio. Selecting them requires a lot of specialist knowledge, industry know-how and experience.

In the 1990s, and even after the turn of the millennium, we were repeatedly confronted by extended phases where it was difficult for innovative biotech and medtech companies to secure new funding. It would seem that this is no longer necessarily the case. What is the reason for this?

The situation today is completely different. The sector has evolved a lot, not least on the back of the progress made in bioinformatics around the turn of the millennium. Whereas before the buzz was largely about potential, today lots of highly innovative medications generating several billion in sales per year are being brought to the market. These many successes have paved the way for a specialised and broad investor base with a large capital base, especially in the US. The extremely positive capital market environment is of course also providing an added boost for companies at the moment. There is a lot of capital available that needs to be invested.

Europe accounts for just 13% of your portfolio; Asia already makes up 25%. What are the respective strengths and weaknesses, and therefore the reasons behind your weightings?

We have not defined any bandwidths with respect to geographic portfolio allocation. We assess each investment case on its individual merits according to different criteria, focusing above all on growth potential and risks. Whether a company is domiciled in the US, in Europe or in Asia plays only a secondary role. Geographical allocation is thus a result of the selection process more than anything else. The US market – the largest biopharma market in the world – is rife and dense with young and innovative companies. Thus, the likelihood is higher that the US will make up a significant portion of the portfolio. Unfortunately, there aren't as many interesting companies in Europe that fit in with an investment focus like ours that is aligned to the later development phase. When Advanced Accelerator Applications (AAAP) was sold to Novartis in 2017 – for almost USD 4 billion d– we did, however, achieve the greatest profit to date with an originally European investment. The high weighting in Asia is due in part to the investment in China-based Cathay Biotech. The Chinese healthcare market is a growth market in the medium to long term – in addition to the fact that China is already the second-largest pharma market in the world. What is more, China is big on innovation.

Oncology has the highest concentration, with a portfolio weighting of 22%. Can you please give us a brief overview of the investment case?

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. For example, we are very keen on precision oncology or “targeted therapies”.

Chemotherapies have for a long time dominated the drug treatment of cancer. While these highly toxic substances inhibit 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.

With 17% liquidity effective 30 June, you have a high quota of available cash. What is the reason behind this and how has the quota evolved over time?

In recent years we’ve always had a quota of available cash of between 10% and 20%. This relatively high quota of available cash is reserved on the one hand for investment obligations arising out of existing private investments and funds, and on the other for new investments and for our shareholder-friendly dividend policy.

HBM Healthcare manages to increase profits and accordingly also dividends, meaning that your investors enjoy high and potentially rising dividends. This is in spite of the fact that their investments are focused on an industry that is not usually associated with dividends, especially in the early phases of a company. Is this “paradox” part of your specific strategy on the capital market?

We aim to strike a balance between investments and dividends. We fund the dividends 1:1 from the sale of successful investments. We want to give shareholders the opportunity to participate not only in growth, but also in a dividend amounting to 3% to 5% per year on the basis of the share price. This strategy has paid off in recent years.

More new authorisations issued on the drug market now relate to biotechnological developments than pharmaceutical ones. Can you give us an estimate of what the ratio will be like in 2030?

The importance will continue to grow. Most of the one hundred top-selling medications today already originate from the development labs of biotech companies. Examples can be found in the field of immuno-oncology: Those drugs with the largest market shares all originate from the research laboratories of small biotech companies and have made their way into the pipelines of the “majors” via takeovers: Keytruda is now manufactured and sold by Merck, but it was originally developed by the small Dutch company Organon. The same applies to Opdivo (today, Bristol Myers) from Medarex, and Imfinzi (today, AstraZeneca) from MedImmune. The externalisation of innovation activity by Big Pharma – that is, the outsourcing of early-stage research and development activities – is in full swing. Biotech is the major winner of this development.

How do you expect healthcare stocks to perform in the next 12 months? What will be the defining trends on the capital market?

We’re very optimistic about the outlook for the healthcare sector from a fundamental perspective. Never have there been so many drug candidates in clinical development as there are today. The size of the investment universe is also setting new records, both on and off the exchanges. There is still plenty of room for expansion. The global biotech industry in its entirety hasn’t yet reached the market value that Apple alone possesses. On the therapy side, we see particular potential in the area of rare and neurological diseases, new cancer immunotherapies, precision oncology, and gene and cell therapies. The generally high valuation of the stock markets could dampen sentiment somewhat. If risk aversion were to increase, smaller and medium-sized capitalised stocks would come under disproportionate pressure. Following the strong gains made by the equity markets in recent weeks – compared with the market environment in general – we have therefore adopted a cautious positioning and have stepped up our market risk hedging.

What is your timeline regarding the pandemic, vaccines, effective therapeutics and the presumed end of the exceptional situation worldwide?

It would be presumptuous to make a forecast here. The companies from our sector are conducting trials of existing and new active substances and vaccines at full speed to contain or even fight the pandemic. We all hope that the major efforts that have been made will bear fruit, since at the end of the day an effective vaccine is probably the only way we will see a return to “normal”. The initial study findings from large-scale studies with new potential vaccines will be available in the autumn. Meanwhile, the small and early-phase studies conducted so far have reported some “encouraging” efficacy and tolerance. Depending on how successful the trials are, a vaccine may be available in limited scope by the end of the year. It will likely take another 6 to 12 months before the broader population will be able to benefit from this, however.

Thank you for the valuable and illuminating insights, Mr Wicki.

Biography of Dr Andreas Wicki, CEO of HBM Healthcare Investments AG

Andreas Wicki is a successful entrepreneur and investor in the healthcare arena and has more than twenty years' experience in the pharmaceutical and biotechnology sector. He was co-owner and CEO of ANAWA Holding AG and Clinserve AG, two contract research organisations for analysis, logistics and data management of clinical and pre-clinical study samples. He studied chemistry and biochemistry at the University of Bern, gaining a PhD, and served on the Board of Directors of Basilea and PharmaSwiss, among others. He is an active board member at numerous biotech companies including Viela Bio, Harmony Biosciences and Pacira BioSciences, as well as at HBM Healthcare Investments (Cayman) Ltd.

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