Healthcare & Biotech Chat With Daniel Malek, CEO of NEXTHERA CAPITAL

Cyril Roditi (left) and Daniel Malek in RJ Management office , June 2018

Hi Daniel, could you please give us a bit of background about your firm?

NEXTHERA Capital is a New-York based investment manager established in 2015, and we employ a fundamental long/short equity strategy in the global healthcare sector with a focus on therapeutics (large cap pharmaceuticals, specialty pharmaceuticals/generics, and biotechnology). We aim to deliver long-term capital appreciation with alpha-generating potential from long and short investments in publicly listed companies across all market capitalizations within the healthcare industry. We manage this strategy via both a Cayman Master Feeder hedge fund and a UCITS vehicle. As of May 31, 2018, as a firm we manage a total of approximately $420 million across these two vehicles. We have a team of 12 people, and our investment team consists of 7 seasoned healthcare specialists and scientists (i.e., medical doctors and PhDs in science).

Why should clients invest in the healthcare sector and in particular through a long/short strategy?

There are many compelling reasons for investing in the healthcare sector. It is one of the largest and fastest,

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growing component of global GDP due to attractive long-term structural trends such as the aging of the population, the rising wealth of emerging markets, and the continued expansion of innovative medical technologies.

The unique characteristics of the healthcare sector make a long/short equity strategy a particularly attractive way in which to invest in healthcare. Factors such as scientific data, technological developments, regulations and politics create winners and losers in the sector and therefore we can search for alpha generation among a plentiful set of long and short opportunities.

Healthcare investing requires additional expertise across a number of fields such as intellectual property, manufacturing and regulatory policy, which creates a high barrier to entry for non-specialized investors to distinguish between winners and losers. This provides varied and abundant opportunities for healthcare specialists firms such as NEXTHERA to generate alpha in the sector.

What are your thematic views on the various sub-sectors within your sector?

Our current view, one we have held since early 2017, is highly constructive on the cycle of innovation in biotechnology, the favourable regulatory environment, and the potential for industry consolidation, and cautious on the pricing pressure and commoditization in large-cap pharmaceuticals and generics.

Can you explain why you turned so bullish on the biotech sector in early 2017?

We are now in the midst of the most productive and exciting innovation cycle in drug development in history. The last several years brought forward a revolutionary crop of new therapeutic technologies that are advancing patient care in meaningful ways. These include potential cures for devastating illnesses such as hemophilia and certain types of cancer. Largely behind us are the days of incremental-type improvements; we are old enough to remember the approval of Tarceva for pancreatic cancer thirteen years ago on the basis of a two week improvement in overall survival.

Such advances in patient care have created, and have the potential to create, tremendous value for all stakeholders – payors, patients, physicians and shareholders – in the latter case, as we saw substantial appreciation in the in the valuations of innovators such as KITE Pharma, Sangamo Therapeutics and Alnylam Pharmaceuticals, among many others, in 2017. Part of the value creation case for these technologies rests on the understanding that society will always place a high value on innovative and novel treatments that truly advance people's well-being, and payors (whether they be single-payor governments or private insurers) are unlikely to deny meaningful, life-changing treatments to people in need purely on the basis of cost. The companies that develop these technologies enjoy a degree of pricing power that, while not unlimited, can create highly durable revenue streams that are attractive to us as shareholders and also to the large biopharmaceutical companies that a) have not taken the development risk to bring such products to market and b) are otherwise experiencing price pressure in their more commoditized business lines.

Can you give us an example of such novelties technologies?

A few examples of these technologies and their remarkable results include gene therapy, chimeric antigen receptor T-cell therapy ("CAR-T"), RNA interference and gene editing.

Let's take CAR-T as an example. This is a "personalized medicine" treatment in which a cancer patient's immune cells are removed from the body, genetically modified to recognize cancer cells within the body, and re-infused. In 2017, KITE Pharmaceuticals showed that treatment of

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patients with a form of highly refractory non-Hodgkin lymphoma (a blood cancer) achieved a response rate (or shrinkage of their tumor by at least 30%) of 73%, with 52% of these patients achieving a complete response (or complete disappearance of their tumors). This compares to an expected response rate of 8% with standard treatments. Nine months after treatment, the average length of survival improvement had not yet been attained, meaning that patients were living long enough that an average could not be calculated; this compares against a 6 month expected survival previously. FDA approved KITE's Yescarta in October and Novartis' Kymriah, also a CAR-T therapy for a pediatric cancer in August.

What about consolidation wave that you were referring to earlier?

Large-cap pharmaceutical companies have lost pricing power, and are facing many structural headwinds such as low to no organic revenue growth, declining revenues in major franchises, and pipeline failures. We believe the passage of tax reform is the final unifying piece of the puzzle that we believe will now enable consolidation in a more sustained way.

All of the previously discussed exciting technologies – gene therapy, RNA interference, CAR-T cell therapy to name a few – are developed predominantly outside the laboratories of the large companies. In order to remain competitive within a rapidly advancing landscape and mitigate the obsolescence of entrenched therapies, companies must acquire these technologies to survive. We had several large transactions so far this year and we believe that this M&A wave will continue.

How would you describe your relationship with RJ Management?

RJ Management has been a day one investor in NEXTHERA Capital since July 2015. We are very communicative and transparent with all our investors, and RJ Management has been very pro-active in discussing the opportunity-set within the healthcare sector with us on a monthly basis.