

# BB Biotech

## Lower rates and news flow to support recovery

BB Biotech (BION) offers investors exposure to the innovative, rapidly expanding biotech sector. It is the largest biotech investor among its investment company peers, focused on high-quality biotech assets that target substantial market opportunities. The company recently released its interim report for the period ended 30 June 2024, which provided an update on recent performance and developments with portfolio companies, and outlined the major milestones expected from these holdings during the second half of 2024. This note summarises the key points from the report, and the reasons why BION's managers are optimistic about the outlook for the biotech sector and for their portfolio.

### BION's performance relative to the Nasdaq Biotech Index (CHF) over 10 years



Source: LSEG Data & Analytics, Edison Investment Research. Note: Total returns in Swiss francs.

### The analyst's view

- BION delivered a significant outright gain of 19.9% in NAV terms over the year ended 31 July 2024, very close to the benchmark return of 20.1%, and its longer-term performance remains robust in absolute and relative terms. In the 10 years to 31 July 2024, BION made an average annual return of 6.9% in NAV terms, above the benchmark return of 6.6%.
- The managers expect lower interest rates and a series of key milestones to support portfolio holdings over H224 and beyond. Their optimism about the company's prospects is reflected in the fact that gearing stood at 13.5% at end June 2024, at the upper limit of its target range.
- BION's shares have traded at an average premium to NAV of around 10% over the past 10 years. However, the share price drifted into discount territory last year and the shares are currently trading at a discount of around 10%. With long-term performance ahead of benchmark and the sector outlook potentially brightening, this may represent an opportunity for investors to acquire access to this vibrant industry at what may be an uncommonly wide discount.
- BION's interim report included news of a leadership change in the investment management team. The team's long-serving head, Dr Daniel Koller, has announced his retirement effective end 2024. He will be replaced by Dr Christian Koch, one of the company's two deputy heads, who has been a portfolio manager at Bellevue Asset Management since 2014. Investors are likely to be reassured by this orderly transition, and the continuity of management it represents.

### Investment companies Biotechnology equities

14 August 2024

**Price** CHF39.75  
**Market cap** CHF2,202.2m  
**AUM** CHF2,368.4m

NAV\* CHF42.75  
Discount to NAV 7.0%

\*Including income. At 13 August 2024.

Yield 5.0%

Ordinary shares in issue 55.4m

Code/ISIN BION/CH0038389992

Primary exchange SIX

AIC sector N/A

52-week high/low CHF49.35 CHF35.60

NAV\* high/low CHF56.00 CHF36.00

\*Including income

Gearing (at 30 June 2024) 13.5%

### Fund objective

BB Biotech, a Switzerland-based investment company, targets long-term capital growth from biotechnology companies developing and marketing innovative drugs. At least 90% of the portfolio is held in listed companies, primarily those that already have products on the market or promising drug candidates in advanced stages of development. BION's benchmark is the Nasdaq Biotechnology Index (in Swiss francs) but it is managed on a bottom-up basis, with a focused c 20–35 stock portfolio.

### Bull points

- Bellevue Asset Management has 30 years' experience in the sector, with proven expertise in backing innovative companies, such as Moderna (bought pre-IPO).
- The prospect of lower interest rates bodes very well for the small-cap biotech sector.
- BION makes unique use of AI and big data to support the investment decision-making process.

### Bear points

- Biotech stocks can be volatile, as the development process for new drugs and therapies is very uncertain and some will fail or otherwise disappoint expectations.
- Gearing increases exposure to downside risks.
- BION invests in foreign currencies, which brings a corresponding degree of currency risk versus the reference currency.

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## BION: More positive news expected in H224

### Annual returns, at 19.9%, are close to the benchmark

After a strong start to 2024, the biotech sector consolidated in the second quarter, lagging global equity markets, which extended the strong rally that began in late 2023. Small-cap biotech companies in the under US\$1bn market cap space experienced some correction in their share prices during Q224, and M&A activity in the sector, which often contributes to performance, was muted.

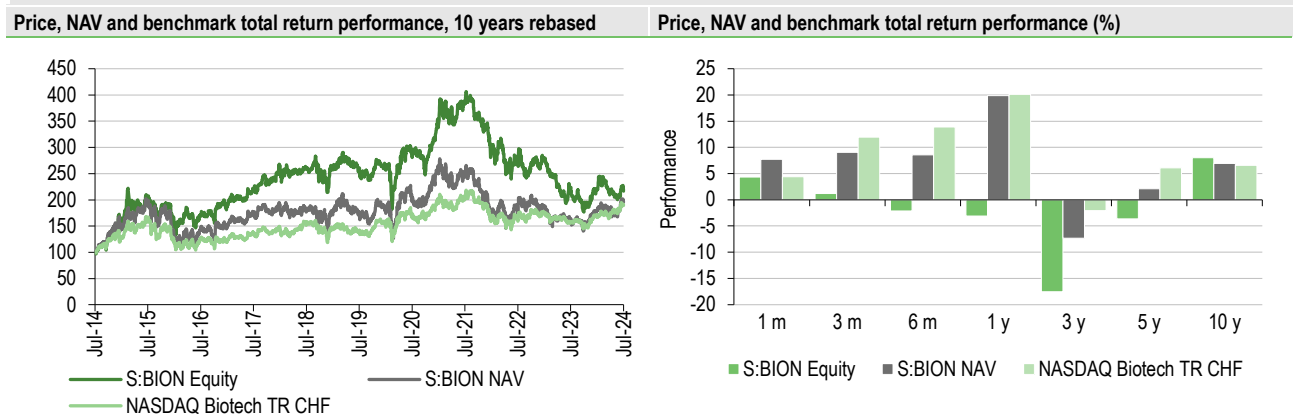
Against this subdued backdrop, BB Biotech's recent performance has been mixed. In the six months ended 31 July 2024, the company returned 8.6% (in CHF in NAV terms), behind the 13.9% return of its benchmark, the Nasdaq Biotechnology Index (NBI). BION's share price declined 2.1%. However, over the year to end July 2024, performance was stronger in absolute terms (+19.9% in NAV terms), and very close to the benchmark return of 20.1%, although BION's share price dropped 3.1% over the period, widening the discount at which the company's share price trades relative to its NAV. Its longer-term performance remains robust in absolute and relative terms. In the 10 years to end July 2024, BION made an average annual return of 6.9% in NAV terms and 8.0% on a share price basis, slightly above the benchmark return of 6.6%.

**Exhibit 1: Five-year discrete performance data**

12 months ending	Share price (%)	NAV (%)	Nasdaq Biotech CHF (%)	MSCI World Health Care CHF (%)	CBOE UK All Cos CHF (%)	MSCI World CHF (%)
31/07/20	7.6	11.2	17.6	10.7	(19.7)	(0.9)
31/07/21	37.7	25.2	21.9	22.7	33.4	35.2
31/07/22	(30.6)	(27.5)	(19.5)	2.7	(2.4)	(4.1)
31/07/23	(16.7)	(8.3)	(2.9)	(4.6)	2.4	3.8
31/07/24	(3.1)	19.9	20.1	15.7	14.9	20.7

Source: LSEG Data & Analytics, Bloomberg. Note: All % on a total return basis in Swiss francs.

**Exhibit 2: Investment company performance to 31 July 2024**



Source: LSEG Data & Analytics, Bloomberg, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised.

### Recent milestones have had a mixed impact on returns

BION's managers believe that many of the company's portfolio holdings have strengthened their financial positions and de-risked their growth trajectories over recent months. They cite developments related to three of BION's largest holdings, Alnylam Pharmaceuticals, Intra-Cellular Therapies and Agios Pharmaceuticals, which all saw substantial improvements in their medium- to long-term revenue and growth prospects following positive Phase III readouts. The most significant of these was Alnylam's positive clinical trial result for vutrisiran, which we covered in a [flash note in](#)

[June 2024](#). BION's managers believe that the multi-billion-dollar revenue opportunity for vutrisiran to treat cardio TTR patients places Alnylam on the path to become a large, high-growth, profitable biotech company. The stock has risen by over 50% since the results were publicised.

Other significant positive developments among portfolio holdings included:

- The announcement by Agios that the Phase III ENERGIZE-T clinical study of mitapivat met the primary endpoint and all key secondary endpoints in adults with transfusion dependent alpha- or beta-thalassemia. Agios plans a regulatory submission by the end of 2024, for all forms of thalassemia, with potential approval in 2025. Importantly, Agios expects the Phase III mitapivat trial for sickle cell patients to read out in 2025.
- A report from Intra-Cellular Therapies of positive topline results in the second Phase III trial evaluating lumateperone as an adjunctive therapy in patients with major depressive disorder (MDD). The company intends to file a supplemental New Drug Application (NDA) for the adjunct treatment of MDD in H224. If approved in 2025, Caplyta (lumateperone) would be accessible to MDD patients, a much larger market opportunity than the already approved treatment indications for patients with schizophrenia and bipolar disorder.
- News from Annexon Biosciences, a new position initiated in Q124, that a single infusion of ANX005 resulted in a significant improvement on the Guillain-Barré syndrome disability scale. Following the positive update, the company strengthened its balance sheet with a US\$125m public offering, although BION did not participate.

The second quarter also saw one product approval and a notable product label addition for BION investments. Moderna gained US Food and Drug Administration (FDA) approval and a recommendation from the Centers for Disease Control and Prevention (CDC) of its RSV vaccine mRESVIA, while Argenx's VYVGART Hytrulo, the subcutaneously administered version of Vyvgart, was approved by the FDA to treat patients with chronic inflammatory demyelinating polyneuropathy (CIDP).

BION's returns were also bolstered to a modest extent by the devaluation of the Swiss franc against the US dollar in H124.

However, several of the company's other small-cap holdings have detracted from performance in Q224. The most significant detractor from performance over recent months was MacroGenics, following a disappointing update for the TAMARACK study of vobra duo in prostate cancer patients. The stock subsequently lost two-thirds of its value, resulting in a 4% decline in BION's NAV. Further safety and efficacy data are due in H224 and updates on a next-generation drug delivery program against the same target are expected in 2025. BION still holds this name in anticipation of more promising developments.

In addition:

- Sage Therapeutics's SAGE-718 failed to improve cognitive impairment in Parkinson's disease patients versus placebo in a Phase II trial. Further Phase II trials testing SAGE-718 in patients with Alzheimer's disease and Huntington's disease will report in H224.
- Immunocore disappointed market expectations on the objective response rate (ORR) of Tebentafusp and the company's valuation dropped in response to early data on its Phase I trial of brenetafusp (IMC-F106C) for patients with cutaneous melanoma.

## **Portfolio activity: Profit-taking, top-ups and one new name**

Since our [May 2024 review](#), BION's main portfolio changes have involved capitalising on gains from several larger, established long-term holdings. The team took some profits on Vertex Pharmaceuticals, Argenx, Intra-Cellular Therapies, Moderna, Neurocrine Biosciences and Agios Pharmaceuticals. They also added to existing positions in several newer holdings, including Annexon Biosciences, a Q124 acquisition, and Biohaven and Immunocore, both purchased in Q423. The team also topped up a position in Celldex Therapeutics, following pipeline progress and

an improvement in its balance sheet, and made one new acquisition: Edgewise Therapeutics, which focuses on developing therapeutic candidates aimed at regulating key muscle proteins, for both skeletal and cardiac muscles.

## Several reasons for the managers' confidence in the outlook

Looking ahead, BION's managers expect several key factors to play a significant role in shaping the biotech landscape and the company's performance. Key among these is the trajectory of interest rates, as the long-term nature of biotech investments makes their valuations especially sensitive to interest rate moves. Once US interest rates begin to track lower, biotech stock valuations are expected to benefit, and the sector is likely to attract new capital inflows.

After a slow start to the year, BION's managers are expecting a pick-up in M&A activity in H224 and beyond. This will be driven in part by the expiry of several drug patents in coming years, which will allow generic versions of these drugs to be sold by competitors at potentially much lower prices. Large pharmaceutical companies will therefore need to seek replacement income from new patented products, including via strategic acquisitions of smaller, attractively priced biotech companies with innovative technologies and promising pipelines. Many, if not all, of BION's portfolio holdings are potential targets for such activity.

In terms of forthcoming key milestones for BION's portfolio holdings, in addition to the MacroGenics update mentioned above, updates are due from:

- Arvinas, which is due to present pivotal top-line Phase III data from the Veritac-2 clinical study, testing vepdegestrant as monotherapy in second-line ER+/HER2- breast cancer patients;
- Scholar Rock and Biohaven, which will announce top-line Phase III results for their TGF-beta antibodies for spinal muscle atrophy patients;
- Revolution Medicine, which is due to provide further clinical data for RMC-6236, its KRAS multi-inhibitor, as well as its G12D inhibitor, RMC-9805;
- Black Diamond: initial Phase II results in second- and third-line non-small cell lung cancer patients with EGFR mutations are expected in H224; and
- Edgewise Therapeutics, BION's newest acquisition, which is due to report proof-of-concept data for EDG-7500 for hypertrophic cardiomyopathy patients and further data for Sevasseten for Becker and Duchenne patients.

Looking further ahead, Moderna is making a significant investment in a respiratory virus vaccine franchise. Its Phase III data for the combination vaccine against influenza and COVID-19 was positive and the company is developing single injections covering double and triple combinations of influenza, RSV and SARS-CoV2, with double vaccines available in 2025 and the triple vaccine expected in 2026.

Product approvals expected in H224 include:

- Crinacerfont, from Neurocrine Biosciences, in congenital adrenal hyperplasia patients of all ages;
- Olezarsen, from Ionis Pharmaceuticals, as treatment for familial chylomicronemia syndrome patients; and
- Axatilimab, from Incyte and Syndax Pharmaceuticals, for the treatment of chronic graft-versus-host disease after failure of at least two prior lines of systemic therapy.

On the political front, the outcome of November's US presidential election may have important implications for the healthcare sector, especially drug pricing, so investors will be monitoring developments closely.

However, overall, the managers are positive on the outlook for the sector, and their portfolio, thanks to the combination of 'strengthening fundamentals, anticipated clinical milestones and supportive

capital market dynamics'. Their confidence is manifest in the current level of portfolio gearing, which stood at 13.5% at end-Q124. This is at the high end of the company's defined range.

### **Dr Christian Koch to assume lead manager role in 2025**

The other important recent news from BION is that its lead portfolio manager, Dr Daniel Koller, has informed the board of his intention to retire at the end of 2024, after 20 years in the company's investment management team, including 14 years as its head. Dr Christian Koch, one of the two deputy heads of the investment management team and a portfolio manager at Bellevue Asset Management since 2014, will take over from Dr Koller as head of the team at the beginning of 2025. Before joining Bellevue, Dr Koch was a sell-side pharma and biotech equity analyst at Bank am Bellevue in Küsnacht and spent three years as a research associate at the Institute of Pharmaceutical Sciences at the ETH Zurich. He holds a PhD in computer-assisted drug design from the ETH Zurich and studied bioinformatics at the Goethe University Frankfurt.

For more Edison research on the life sciences sector, please see [Outlook for 2024: Life sciences – Where has the conviction gone?](#)

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