



PVG Asset Management Corporation
LOSS AVERSE INVESTING

PORTFOLIO MANAGER:
Patrick S. Adams, CFA

PHONE:
303-874-7474

EMAIL:
padams@pvgasset.com

WEBSITE:
www.pvgassetmanagement.com

ADDRESS:
6898 S. University Blvd.
Centennial, CO 80122

EMERGING HEALTHCARE

Update December 2022

The emerging healthcare sector of the market, specifically the emerging biotechnology index or XBI has been through a brutal bear market falling roughly -65% from the high in February of 2021, to the low during June 2022, a historic bear market. This is a high-risk sector of the market, but given the decline, and the positive fundamentals, **we believe the PVG Emerging Healthcare strategy return potential is very compelling.**

We did not expect this type of decline given the strength of the fundamentals, thus the opportunity. The return potential is very high, but we would emphasize that this is a very high risk sector. We believe investors need to be selective in the securities they purchase and refrain from a broad market index, although a broad index should have attractive performance. During 2020, there were a record 77 biotechnology companies brought public and during 2021 even more companies did IPOs, a total of 96. Many of these companies should not have gone public and need to be cleansed from the system by either merging or going out of business. The fear of the capital markets closing for capital raises, due to a bear market, has provided this opportunity to invest in the good companies.

Valuations are very attractive, phase 3 assets are being valued like they are much higher risk, like a phase 1 or 2 drug early in development.

The healthcare industry is a significant growth sector, large drug companies need to make acquisitions to fill their pipelines, and the biotechnology sector is the fastest growing sector in healthcare. Over the years, the science of drug development is much improve, lowering the risk of failure and reducing the time to get a drug approval by a significant amount. The number of drugs getting approved by the FDA since 2016 has been vastly higher. Additionally, computer science is being integrated into drug discover, which has been rather remarkable in identifying the appropriate drug compound necessary to achieve efficacy.

After any major decline in the XBI, it is followed by remarkable returns. It is impossible to say for sure if the sector has made the bottom, or that it may also retest the previous bottom made in June. We do believe that over a reasonable period, 2-3 years, that 200-300% returns are achievable.

From the bottom of the last bear in February 2016 to the top in 2021, the index was up 234%. From roughly 2010 through 2015 the index was up 4x.

Historically, Biotechnology has Outperformed as a Sector

- Since the Nasdaq Biotech Index's (NBI) inception in 1993, NBI's performance has exceeded the S&P Composite's performance by 1244%, even with a massive bear market for the sector in the last year.



Our strategy is focused on companies that may have a drug that was just approved, lowering the risk and the potential upside not being reflected in the stock price. Also, our focus is on companies that have successfully completed phase 3 trials, are seeking approval, but the share price is not reflecting the upside potential. We also have companies that are early stage, with great science, and are extremely undervalued. Many of our stocks have 5x-10x upside potential.

The general areas we are focused are Cancer, Cardiology, Alzheimer's, NASH, and Rare Diseases. Our top idea in cancer, that has significant upside, and has an approved drug is GTHX, which protects against the side effects of chemotherapy. CKPT has a drug in the immunotherapy space that they are filing for approval. BTAI has an approved drug but is also focused on getting that same drug approved for Alzheimer's Agitation, a very large market! In the cardiology space, we have high conviction in SCPH and MIST. VKTX has the best data in NASH, a very large drug area, with no approved drugs currently. Lastly, SYBX is focused on rare diseases, the stock trades for half the cash they have on their balance sheet.

Our strategy has the potential to achieve very high returns over a multiple year period but is high risk and needs to be weighted conservatively for most investors.

For Disclosures, please see our marketing deck on our website

