

THE ACTIVIST REPORT

13D Monitor

Volume 5 Issue 11

November | 2015

10 Questions with Alex Denner

Dr. Denner is a Founding Partner and Chief Investment Officer of Sarissa Capital Management LP, an activist hedge fund that focuses on the healthcare sector. From 2006 to 2011, Dr. Denner served as a Senior Managing Director of Icahn Capital, an entity through which Carl Icahn conducts his investment activities. Dr. Denner is a director at Biogen Inc., ARIAD Pharmaceuticals, Inc. and VIVUS, Inc. Previously, Dr. Denner had served as a director of Amylin Pharmaceuticals, ImClone Systems (where he was Chairman of Executive Committee), and Enzon Pharmaceuticals.



13DM: The Healthcare sector has been beaten up pretty badly lately. What do you attribute that to?

AD: The health care sector has been under pressure primarily due to scrutiny about certain business models (aggressive pricing actions, reliance on specialty pharmacies, etc.). These activities are relatively commonplace but we are in an election year, increasing the scrutiny placed on the sector from politicians trying to win favor with voters. I remember the last time that Hillary Clinton spoke about health care in 1993 and her comments had a similar impact on the sector, creating attractive buying opportunities. We believe we've entered a similar period now.

13DM: How does that affect activism? Should we expect more activism in this sector?

AD: We think that health care is a sector

well-suited for activism for several structural reasons. The recent volatility has generated more attractive entry points for companies we've been monitoring for a long time. It's easier for us to achieve a position of influence when a company's stock is under pressure and shareholders are generally less content. Additionally, we believe the volatility has been widespread without regard for fundamental differences in operating models. We would expect to see an increased number of activist situations in healthcare in the near term.

13DM: Is it easier to spot bad management and get the support of other shareholders in down markets?

AD: Yes, we've seen this phenomena over the last few years where well run companies enjoy a significant premium to poorly run companies and we believe that premium has only grown over the recent period of volatility. We believe this presents an additional opportunity via management changes or strategic redirection in order to close that valuation gap.

13DM: How will the upcoming presidential election affect investing in healthcare companies?

AD: We think the election year will present multiple attractive entry points as politicians seize upon specific issues to attempt to influence voters. We think that this is mostly noise and little will fundamentally change regardless of the election outcome.

13DM: There seems to be a debate in the healthcare community between growth through R&D or acquisition. How do you come out on this?

AD: We're agnostic about value creation via

organic R&D or acquisition. A bias often exists within companies to continue home-grown R&D programs through successive phases of development without regard to shareholder return. When we enter a situation, we assess each R&D program with a fresh set of eyes and an emphasis on ROI. In some cases, we've dramatically altered the composition of R&D spending at portfolio companies, tending to emphasize earlier stage projects which have less political capital within organizations at the expense of later, larger and more costly projects. In sum total, we've increased total R&D spending at portfolio companies.

13DM: There has also been a lot of criticism about acquiring drugs and dramatically increasing the price. Is this common throughout the industry? Is it illegal? Is it just free markets and maximizing value for shareholders?

AD: We focus on companies that have developed innovative and differentiated therapies that address areas of significant unmet medical need. We are very conservative investors and don't factor in aggressive pricing actions as a primary value driver, rather we focus on fixing operational or strategic deficiencies to build shareholder value. We are skeptical of companies charging premium prices for therapies that don't match the previously outlined criteria.

13DM: Recently, a short-seller has accused Valeant of improper activities through its specialty pharma relationships. Can you explain how these relationships work and how common these relationships are throughout the industry?

AD: We think that specialty pharmacies can play an important role in the health care eco-

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ALEX DENNER (cont'd. from pg. 1)

system, enabling patients to receive therapies on an expedited basis. However, there is the potential for abuse.

13DM: With all of the publicity on Valeant, many are led to believe that activism in the healthcare industry consists of cutting R&D, acquiring companies and raising prices. This obviously misstates healthcare activism and greatly understates the value that ValueAct had as an investor and board member at Valeant. What are the best ways for an activist to create shareholder value in a healthcare company?

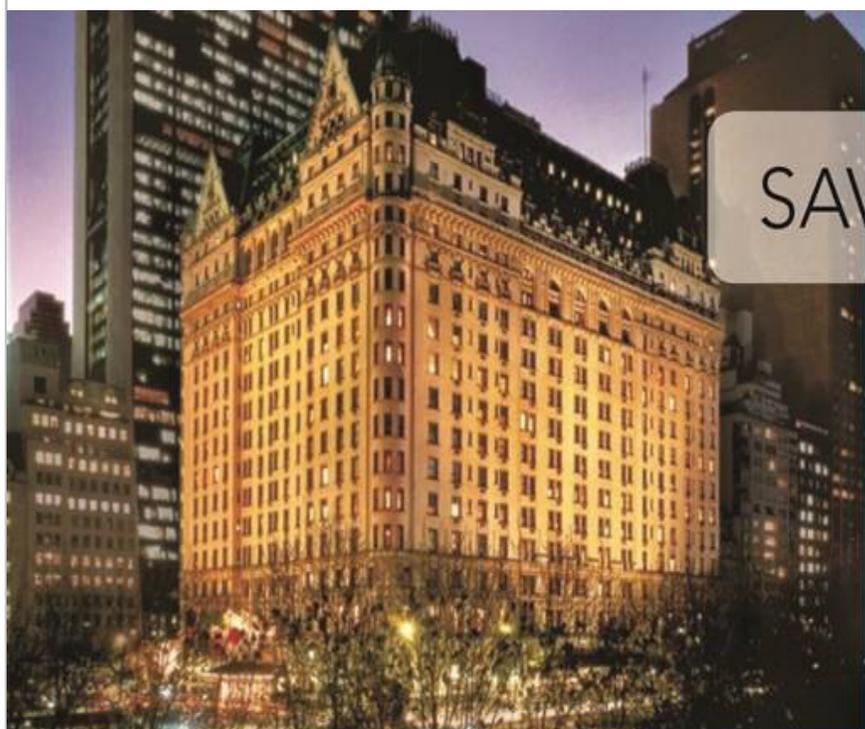
AD: Activists have multiple ways to create value at health care companies. Companies with approved therapies tend to grow complacent given significant barriers to entry via patents or biologic manufacturing capabilities and the potential for significant profitability on a product level. Activists can instill discipline and a renewed focus on creating shareholder value via multiple dimensions including optimizing R&D spending, enhancing capital allocation, exploring partnerships to commercialize assets, streamlining product portfolios, improving relationships with prescribers, providers and regulators, etc. Each situation is unique and we rely on our expertise in all these areas as we seek to unlock value across our portfolio companies.

13DM: What do you see for the next 5 years in healthcare investing? 10 years?

AD: We see tremendous potential as recent research developments make progress through clinical trials leading to therapeutic approvals, all of which may create dozens of companies with multi-billion dollar valuations. Companies with approved products often exhibit many of the deficiencies we've discussed previously, creating opportunities for us.

13DM: Where they are trading now, what is your favorite position in your portfolio and why?

AD: We're very excited about the current portfolio and it is difficult to pick a favorite. Major positions include Ariad Pharmaceuticals, The Medicines Company, Biogen and AbbVie. There are also some potential opportunities that have recently become extremely interesting to us.



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