woodford

WPCT INTERIM RESULTS 2017

Mitchell Fraser-Jones, 4 August 2017

The views expressed in this article are those of the author at the date of publication and not necessarily those of Woodford Investment Management Ltd.

Today marks the release of the Woodford Patient Capital Trust's interim results for 2017. You can find a copy of the report here, and we have published Neil's portfolio manager's review below.

Manager's Review from Neil Woodford

In the Company's annual report, I emphasised that the operational progress of many of the holdings in the portfolio were exceeding expectations and suggested that it was only a matter of time before this progress started to be reflected in valuations. It is pleasing that this has started to come through in terms of performance but the share price and NAV progress we have seen in recent months is insubstantial in the context of what, I believe, lies ahead.

Positive progress

The largest contribution to returns came from hybrid real estate agency business Purplebricks, which began its association with the portfolio as an unquoted business before pursuing a stock market listing in late 2015.

Growth throughout this period has been nothing short of exceptional, as the management team have successfully executed their ambitious plans to dominate the UK's nascent online estate agency industry, while at the same time, significantly disrupt the traditional estate agency model. Its rapid progress in the UK has emboldened the management team to replicate their business model in other territories, launching in Australia last year and announcing plans to establish a US presence earlier this year.

In the period under review, shares in Purplebricks more than trebled in price, reflecting the success that the business is demonstrating in the UK and increasingly overseas. I am also confident there is more significant growth to come for the business in the years ahead.

Elsewhere among the quoted positions, we saw a solid contribution from US biotechnology businesses Theravance Biopharma and Prothena, and an impressive return from the UK gene-editing services business Horizon Discovery. Indeed, since the period end, Horizon has announced a deal to acquire GE's gene technology business, Dharmacon, which further strengthens its position in this exciting and fast-evolving field.

There were also some good returns delivered by the unquoted portfolio, with British immuno-oncology business Immunocore among the highlights. Our website readers may remember that we focused on the opportunity that lies ahead for Immunocore in a company spotlight last year. At ASCO, the world's biggest oncology conference, the company announced very compelling data from its lead programme, investigating IMCgp100 in metastatic uveal melanoma, a rare form of cancer with no current treatment options. The data shows a meaningful improvement in progression-free survival for patients with the condition. Effectively, the data showed that the drug doubles the length of time the condition stays stable without progressing further.

With the drug already having orphan drug designation in the US, the company now intends to rapidly progress the treatment through clinical development to make it available to patients as soon as possible.

This is clearly great news for Immunocore and the valuation at which the position is held in the portfolio has been uplifted to reflect the positive data. Looking forward, we remain very confident that Immunocore can deliver significant further growth as it progresses towards the commercialisation of its highly promising technology and advances additional development candidates towards the clinic.

Meanwhile, Ultrahaptics was revalued upwards following the successful completion of a further funding round that will provide additional capital needed to support the company's global expansion and its entry into virtual and augmented reality markets. I remain delighted with the progress that Ultrahaptics is demonstrating and remain very excited about its long-term prospects – capturing just a small fraction of the potential that exists for the company's innovative technology will result in substantial shareholder value being created.

Oxford Nanopore, Gigaclear and Autolus also saw uplifts to reflect the progress they are making on their way towards scaled commercial enterprises. Meanwhile, evergreen investor Arix Bioscience, and disruptive online mattress retailer Eve Sleep, successfully made the transition from unquoted to quoted via their successful market IPOs in February and May, respectively.

Overcoming hurdles

It wasn't all plain sailing, of course – it never is. The share prices of several quoted businesses declined during the period. Some of these declines were to an extent justified, but some of them should be seen in the context of a stock market that often struggles to effectively value businesses that may be many years away from generating revenues.

Allied Minds was a key negative performer, following the announcement in April that it would discontinue funding seven subsidiaries. It is my view that the market has overreacted to this announcement. I remain attracted to the Allied Minds investment case – indeed I remain a strong supporter of the broader intellectual property commercialisation sector. The businesses I have backed have diverse portfolios of young, disruptive businesses with significant long-term potential.

The model works best, in my view, when small amounts of capital are deployed at a very early-stage to help establish businesses and evidence the potential of their technology. More capital is selectively deployed as and when those companies demonstrate successful progress against subsequent milestones. Indeed, that is the model that we deploy for the Company. As is natural in this space, not all of them will fulfil their potential, and so it can become necessary to withdraw support and funding from certain businesses. These are obviously difficult decisions but it is an important discipline and sends a positive message to shareholders about a management team's intent.

We never believed that all of Allied Minds' subsidiaries would succeed and we have built our positive investment case for the stock around the value that we see in its portfolio of more successful subsidiaries. These include businesses such as Federated Wireless, Scifluor and Precision Biopsy, into which we have also directly invested for the Company's portfolio.

By crystallising value in businesses that are not demonstrating the progress that had been hoped for, Allied Minds can focus more aggressively on the companies that are rapidly progressing towards their commercial goals and reallocate capital towards new ideas. In that respect, we believe the strategy is sensible and will help to accelerate the creation of long-term value for shareholders. We expect to hear positive news from these more promising businesses through the remainder of this year and into next.

Elsewhere, shares in 4D Pharma declined, despite continued positive progress in the development of its live biotherapeutic therapies. Similarly, ReNeuron also declined, despite the fact that the company announced very positive data in its stroke trial. In each of these instances, we remain very attracted to a long-term commercial opportunity that is being substantially overlooked by the market.

By way of example, ReNeuron, a leading clinical-stage stem cell business, had a market capitalisation at period end of £54m. At its latest financial year end (31 March 2017), the company held £53m in cash on its balance sheet, meaning that the stock market is effectively ascribing a value of £1m to the future value of this company's world-class technology. This appears ludicrous, in my view, but it also serves as an effective demonstration of how market inefficiencies can lead to compelling long-term investment opportunities.

New entrants

In terms of portfolio activity, we introduced Novabiotics, a clinical-stage biotechnology company focused on developing first-in-class therapies for difficult-to-treat diseases, and we also participated in follow-on funding rounds for several companies. These included Inivata (a liquid biopsy technology company), Ombu (an early-stage investment company focused on industrial sectors), Atom Bank (a digital challenger bank) and Ultrahaptics, which is mentioned above. We also took advantage of temporary share price weakness to add to the portfolio's positions in Prothena, Theravance Biopharma and Thin Film Electronics. The portfolio's position in Utilitywise was sold in May.

Looking ahead

Overall, the portfolio is in excellent shape and we remain very confident in the long-term return outlook from here. I said in the annual report that I could see the fundamental progress that our businesses were delivering and that it was only a matter of time before this progress started to be reflected in valuations. It is pleasing that this has started to come through in terms of performance but the best is yet to come, in my view. I remain very confident that this portfolio will deliver the attractive double-digit annualised returns that we set out to deliver at launch.

Download the full interim report to 30 June 2017

What are the risks?

- Long-term outcomes are more binary – extremely attractive rewards for success but some businesses will inevitably fail to fulfil their potential and this may expose investors to the risk of capital losses
- As it can take years for young businesses to fulfil their potential, this investment requires patience
- The value of the trust as well as any income it pays will fluctuate which may partly be the result of exchange rate changes
- The price of shares in the trust is determined by market supply and demand, and this may be different to the net asset value of the trust. This means the price may be volatile in response to changes in demand
- The trust may invest in overseas securities and be exposed to currencies other than pound sterling – as a result, exchange rate movements may cause the sterling value of investments to decrease or increase
- The trust may invest in unquoted securities, which may be less liquid and more difficult to value, because they are generally not publicly traded – the lack of an open market may also make it more difficult to establish fair value
- Young businesses have a different risk profile to mature blue-chip companies – risks are much more stock-specific, which implies a lower correlation with equity markets and the wider economy

Important information

We do not give investment advice so you need to decide if an investment is suitable for you. If you are unsure whether to invest, you should contact a financial adviser. The trust currently intends to conduct its affairs so that its securities can be recommended by IFAs to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The securities are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

woodford

WPCT INTERIM RESULTS 2017

Mitchell Fraser-Jones, 4 August 2017

Woodford Investment Management Ltd is authorised and regulated by the Financial Conduct Authority (firm reference number 745433). Incorporated in England and Wales, company number 10118169. Registered address 9400 Garsington Road, Oxford OX4 2HN.

Woodford Patient Capital Trust plc is incorporated in England and Wales, company number 09405653. Registered as an investment company under section 833 of the Companies Act 2006. Registered address Beaufort House, 51 New North Road, Exeter, EX4 4EP.

© 2019 Woodford Investment Management Ltd.
All rights reserved.