

Why drug price controversy is great news for this hedge fund manager

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PHOTO: TIMOTHY FADEK

As drug stock prices tumble, one hedge fund manager's loss is another hedge fund manager's gain.

Before there was [Martin Shkreli](#), the hedge fund short-seller turned biotech CEO who last week set off a [political firestorm](#) with a [5,000% drug price increase](#), there was Kyle Bass. Also a hedge fund manager, and best known for [successfully shorting subprime mortgages](#) before the housing market collapsed, Bass has effectively been on the other side of Shkreli's bet, investing big money in an apparent [attempt to reduce drug prices](#) charged by certain companies. And with pharmaceutical stock prices tumbling in recent weeks, Bass's side may be starting to pay off.

Under an organization he formed called the Coalition for Affordable Drugs, Bass and his firm Hayman Capital Management (with \$2 billion in assets under management) have lately filed dozens of challenges to drug patents held by a number of biopharmaceutical companies, all the while shorting those drugmakers' stocks. Bass has insisted that the investments aren't just about making money, but about invalidating patents that keep drug prices "sky high."

In April, he [told a Congressional committee](#) that he intends to "police the abusive patent tactics used by the worst

NPS EX. 2068

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Since February, Bass's Coalition for Affordable Drugs has petitioned against patents owned by Celgene [CELG](#) 3.66% , Biogen [BIIB](#) -0.98% , Acorda Therapeutics [ACOR](#) 1.46% , Jazz Pharmaceuticals [JAZZ](#) 4.19% , NPS Pharmaceuticals (acquired by Shire), Anacor Pharmaceuticals [ANAC](#) 5.08% and others.

Until recently, Bass's biotech shorts [didn't seem to be playing out so well](#); though the stocks' prices often [dipped](#) on the news of his challenges, they quickly recovered—especially after the first of his petitions were [denied](#) by the U.S. Patent and Trademark Office over the last few weeks.

Bass's luck, however, took a turn for the better the other day, after outrage over Turing Pharmaceutical CEO Shkreli's price move took over the headlines. The increase [riled up politicians from Hillary Clinton to Donald Trump](#), who strongly denounced the move, spooking investors that greater drug price regulation was coming. Biotech stocks [fell into a bear market last week](#), with the Nasdaq Biotechnology Index now down more than 24% from its July peak.

A spokesperson for Hayman Capital did not respond to requests for comment, and it wasn't possible to determine precisely how Bass's portfolio has performed recently. But stocks in Bass's short book have clearly suffered, presumably to the hedge fund manager's gain (even if his patent challenges didn't precipitate their downfall). The biggest contributors to the biotech index's decline are Celgene and Biogen, which have fallen 20% and 29%, respectively over the same bearish period. Jazz shares have fallen nearly 28%, while shares of Acorda, Anacor and Shire have each declined at least 20%. Bass also scored another victory this week when [patent regulators ruled that his strategy of challenging drug patents for his own monetary gain was itself valid](#), rejecting a challenge from Celgene. "Profit is at the heart of nearly every patent," the officials said in their decision.

Meanwhile, according to his firm's latest holdings [disclosure](#), Bass has long positions in certain other drug companies, with his largest stakes in Perrigo [PRGO](#) -0.20% and Mylan [MYL](#) 2.27% , which both make generic, cheaper versions of branded drugs. He also owns smaller stakes in Pfizer [fortune stock symbol="PFE"], Regeneron [REGN](#) 2.73% , Vertex Pharmaceuticals [VRTX](#) 1.11% and Valeant Pharmaceuticals [VRX](#) 0.37% . As Bass [explained to The Wall Street Journal](#), "We invest in companies that we think have strong intellectual property and we invest against companies we think have weak intellectual property."

Still, even Perrigo and Mylan—unlikely targets of pharma price regulation, as their generics are generally credited with keeping drug prices lower—have not been immune to the biopharma selloff. Perrigo shares have fallen more than 16% since the stock showed up in Bass's portfolio at the end of June, while Mylan's shares are down 41%. Those declines, however, have more to do with Mylan's [involvement in hostile takeover battles](#), including its ongoing pursuit of Perrigo.

Ironically, some of Bass's bullish biopharma picks have also been implicated in the fallout over high drug prices. Valeant's shares [fell 16.5% on Monday](#) after lawmakers pressed for answers on why it has raised the price of drugs, and the stock is down 26% over the last quarter since Bass has owned it.