Breakthrough therapies with billion-dollar market potential are what every biotech company seeks—and what every investor wishes for. Narrowing choices and focusing on opportunities with multibagger potential is the goal of every investor, and few do it better than Chen Lin, author of the popular stock newsletter *What Is Chen Buying? What Is Chen Selling?* In this interview with *The Life Sciences Report*, Lin focuses his analytical expertise on the biotech sector and names companies with blockbuster promise.

Source: Zig Lambo of *The Life Sciences Report*

**The Life Sciences Report:** When you first spoke with *The Life Sciences Report* last August, you explained why you decided to diversify your recommendations and holdings to include both resource and biotech investments. How has that been working out for you?

**Chen Lin:** So far, biotech has been great for me. At the time of the last interview, *Sarepta Therapeutics* (SRPT:NASDAQ) was doing extremely well. Later, it went on for a huge run and became the No. 1 biotech in 2012. If you check top biotechs in the past 52 weeks, published by *Forbes*, it's still No. 1 or No. 2.

*Neptune Technologies & Bioressources* (NTB:TSX; NEPT:NASDAQ), unfortunately, suffered a tragic fire last November that stopped production and knocked down the share price. Now it's climbing back to last year's level. Without that event, Neptune's stock would have done a lot better.

**TLSR:** Although they operate in totally unrelated industries, junior resource companies and junior biotech companies are similar in that they usually have to spend a lot of money up front and over a long period of time, often making big bets before they see positive cash flow. Is playing a biotech similar to betting that a resource company makes a big hit on a mineral property?

**CL:** There are a lot of similarities in the two sectors, but each trades at its own rhythm. One sector can get very hot and the other can get very cold. That's where we are right now. Biotech is red hot, and resources are very cold. From a trader's standpoint, I calculate the risk-reward and take advantage of the market swings.

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**TLSR:** For some smaller biotechs, one drug can be a company maker or breaker. With all the challenges and costs associated with developing, testing and getting U.S. Food and Drug Administration (FDA) approvals, how do you decide which companies have a decent shot at becoming big winners?

**CL:** I always look for market leaders, and make sure a drug candidate is advancing the company cause. If the drug candidate has no competition, that's even better. Most important, investors want to buy the best candidate in its own space. That's the most important factor I look for.

**TLSR:** Some biotech stocks trade back and forth based on news, just like resource stocks. How do you decide on a good entry point?
CL: I usually go for the company that has not been discovered by the market. An investor should try to get in when the market is not paying attention. Then, hopefully, that investor can take a profit later and reduce risk.

TLSR: Do you think that playing the swings on the same stock is a good strategy, or do you look for one shot to get in and get out?

CL: I do some swings, but usually I hold on to a core position. Biotech stocks often swing wildly.

TLSR: The current market hasn’t been kind to resource companies trying to raise capital for developing properties. How is it treating biotech companies that are in the research and development (R&D) phase and need to raise capital for continuing R&D activities?

CL: We’ve seen a dramatic change in the biotech sector in the past 12 months. There have been quite a few initial public offerings and secondary offerings this year. In general, I think the biotech market is healthy. However, it was very difficult to raise money last year and even before that—just like where we are with the resource sector now. Now money is rushing into the sector and a lot of biotechs are taking off like crazy.

TLSR: One of the big considerations surrounding drugs being developed for diseases and conditions affecting very small populations is the ultimate cost of the drug to the user. Do you consider insurance coverage in your investment research?

CL: Some of the drugs targeting these rare or orphan indications cost $200,000 ($200K), $300K or $500K per patient per year. It depends on the drug. In life-and-death situations, an insurance company usually has to cover the therapy. I’ve seen some pushback, mainly in Europe, when the cost gets significantly over $500K per year per patient.

However, especially for a magic drug that can cure a specialty disease, insurance companies seem more than happy to pay half-a-million dollars per patient per year. The Patient Protection and Affordable Care Act (Obamacare) can also help, because it brings more patients into the insurance pool, and insurance companies cannot reject patients because of preexisting conditions. Having more patients who need treatment in the pool can actually help biotech companies a lot.

TLSR: Getting back to the two companies you have already mentioned—Sarepta and Neptune—can you give us a little more detail on what’s been going on with them over the past 10 months?

CL: Sarepta has done extremely well. It is one of the top performing biotech stocks. When I researched the stock, what really moved the needle for me was a video on the Internet of a boy who was given eteplirsen, the company’s treatment for Duchenne muscular dystrophy (DMD), and started walking again. He can run and do sports. That was the "wow" that made me buy a lot more of the stock. I also bought sizable call options of the stock before the final results came out last year, and they earned me a twelve bagger when the stock hit $40/share. I’m still holding a core position of the stock.
We are living in the Internet age. Small investors can take advantage of the market opportunities like this, getting ahead of the crowd instead of always being the last ones to know. They can even get ahead of some of the big funds.

Sarepta’s stock has very high short interest now; close to 30%. Institutions own 60%. Personally, I believe it’s a very dangerous situation for the shorts. The company is going to meet with the FDA in the next quarter. If accelerated approval for eteplirsen is recommended, I believe we’ll see a huge short squeeze, and this stock can be the Tesla Motors Inc. (TSLA:NASDAQ) of biotech.

TLSR: Give us a little detail on what exactly Sarepta’s drug does.

CL: It helps the muscles of DMD patients grow. The disease causes muscle degeneration, and typically patients are in wheelchairs by their teens and often die in their 20s. The tests so far show that with eteplirsen, the patients stabilize. Some even improve. The company has announced results after 84 weeks of study, and the kids in treatment are doing very well. This is one of those magic drugs that changes people’s lives and helps patients live longer. The company has already completed phase 2b tests, and is working with the FDA for potential accelerated approval.

TLSR: When might that happen?

CL: I believe the company will meet with the FDA in Q3/13, and that is when it will decide whether to go for accelerated approval. With that very high short interest, if eteplirsen gets accelerated approval, watch out for the upside.

TLSR: Did these shorts come in at a much higher price, or are investors just now betting that the company is not going to get approval?

CL: I think the shorts came in at the current or a lower price. Those investors are already out of the money, and are probably betting the company won’t get approval and that the stock will go back to the $20 per share range, where they can cover. But if they’re wrong, the upside is huge, because those investors will be forced to cover at a much higher price. We saw the huge rise of Tesla. I think that’s the example for the shorts in Sarepta.

TLSR: So what about Neptune?

CL: Neptune stock was down because of the fire, which resulted in the deaths of several employees and multiple injuries. As I said, the stock has recovered nicely lately, and I'm looking for phase 2 results on Neptune's krill oil derived medical product, produced by its subdivision Acasti Pharma Inc. (ACST:NASDAQ: APO:TSX), this summer. Krill oil shows promise as a treatment for hypertriglyceridemia. Also, the company plans to restart its production. Right now it's in a holding mode.

TLSR: What has the stock done since we last talked?

CL: It was down sharply after the fire, which destroyed Neptune's only manufacturing facility. It was $3–4/share before. Today, it's about $3/share.

TLSR: So the facility is back online, or will be back online?

CL: Neptune is rebuilding the facility with insurance money.
TLSR: What is the closest catalyst?

CL: The next catalyst will be the phase 2 results for the Acasti product, expected this summer.

TLSR: Are there any new names that you'd like to discuss?

CL: One is AcelRx Pharmaceuticals, Inc. (ACRX:NASDAQ), which did extremely well this year. It is designing a new therapy that replaces intravenous (IV) morphine after surgery. We all have been with or seen people who recently have had surgery. Patients usually have needles stuck in their arms to inject morphine. It takes usually two nurses to double check and make sure that the right amount of morphine is being injected with a standard IV. But still, one in every nine IVs has an error. That has created a lot of potential liability for hospitals and is also bad for the patients. In addition, as a patient, placing an IV is a very uncomfortable process, and it can be hard to move around with an IV.

"When the table turns, the upside profits can be huge."

AcelRx has developed a revolutionary delivery product—basically a tiny tablet you put under your tongue. The tablet, part of AcelRx's nanotab technology, is preprogrammed. This takes away potential liability and work for the hospital. The phase 3 test results were fantastic. The company will apply for approval very soon. We've already seen very strong insider buying. The stock tripled this year, so it's been a winner for me.

TLSR: What do you see for upside on the nanotab, assuming it does get approval?

CL: It depends on how fast hospitals adopt this new product. The most bullish analyst reports see AcelRx as a $60/share stock, but we put a $15 target on it to be conservative. It's a potential billion-dollar per year market. The company's market cap right now is about $323M. I see the company as a huge success if it gets FDA approval for its technology. There is much more upside.

TLSR: When would you expect possible approval?

CL: The product should get final approval next year and then go into production.

TLSR: Are there any other new companies you'd like to discuss?

CL: There are two more companies I'd like to mention. One is Vanda Pharmaceuticals Inc. (VNDA:NASDAQ). It's developing a therapy for totally blind people to help regulate their circadian rhythms. Our human bodies are on an internal clock that runs on a 24.5-hour cycle. With normal sight, we can adjust our clocks with daylight, but blind people cannot. This condition, known as non-24-hour disorder, turns out to be very painful for the blind. Vanda just filed for a new drug application with the FDA for tasimelteon, which has had very successful phase 3 test results. If it gets approved, tasimelteon will be the first and only drug in its class to treat non-24-hour disorder.

Vanda is a very telling stock. The stock was trading below cash three months ago. It has quadrupled in three months, making it one of the hottest stocks this year. That tells you how hard the biotech sector was hit last year. There were many who tried to short the stock because it ran too fast, but those shorts were burned badly. It's the same thing for other sectors I'm following closely, like energy and mining. When the table turns, the upside profits can be huge.

TLSR: So are you still positive on Vanda even though it has had this run?
CL: Yes, I'm still very positive. I'm still holding the stock. I took some profit but am still holding the stock.

TLSR: How much more upside do you see from here?

CL: If tasimelteon gets approved, there's a lot more upside. The market cap is still very cheap. It's a potential billion-dollar company with a $214M market cap now, and $120M in cash. It's an amazing stock.

TLSR: So you have another one you want to talk about?

CL: The last is a company called Apricus Biosciences Inc. (TBIO:OTCBB). The company makes an erectile dysfunction (ED) drug, like a Viagra (sildenafil citrate; Pfizer Inc. [PFE:NYSE]). Viagra is orally administered and can only help 50–55% of the population because people cannot take Viagra if they have a heart condition or diabetes, etc. Apricus’ drug, Vitaros, can cover the rest because it is a cream that is applied locally. Major pharmaceutical companies like Abbott Laboratories (ABT:NYSE) and Novartis AG (NVS:NYSE) have already licensed this product, signing for milestone payments of almost $100M plus additional double-digit royalties, in most cases.

But the company's market cap is still tiny. It's still around $85M. One day, one of the big pharma's will say, "Why do I need to pay hundreds of millions in royalties when I can buy the company for the same price?"

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I like the company's new management, because it just got rid of the poison pill (shareholders' rights agreement) that opened it to a bidding war. Recent stock weakness was due to the company doing a secondary offering. I believe once the shares go to stronger hands, the stock can make a major move. It just got European Union (EU) approval for Vitaros. It will find new partners and get new milestone payments. For the next 6–12 months, we could have a dozens of positive catalysts. I believe the stock will move much higher. This is the only biotech stock that didn't go parabolic for me this year, but I think it could be the next to move.

TLSR: Where is it trading now?

CL: Around $2.50. With an $85M market cap and an ED drug that has billion-dollar per year potential, Apricus can be worth billions. And the company has already received EU approval. So Vitaros can be on the market in 6–12 months.

TLSR: How would this product be priced relative to something like Viagra, Cialis (tadalafil; Eli Lilly and Co. [LLY:NYSE]) or other competitors?

CL: It is up to the company's partners to price it. I think Vitaros will be priced similarly, if not higher, than other ED drugs because the company is trying to help certain patients who cannot take Viagra or Cialis.

TLSR: What's your recommended strategy for investors who want to play biotech stocks at this point, considering that they seem to be in a bull market rather than a bear market?

CL: I believe biotech is in the first leg of what could be a multiyear bull market. Right now, there is a lot of low-hanging fruit. I would look for companies with unique products that are best in class, and that have no or little competition. Usually, those kinds of companies are very hard to find later in a bull market.
All the companies I talked about, with the exception of Sarepta, have market caps far below $1 billion, and have at least a few billion dollars' potential. They are low-hanging fruit. All are well financed and have the great upside.

**TLSR:** I suppose a lot of these are probably potential takeover targets at some point, too.

**CL:** I believe many, if not all, are takeover candidates by big phamas that need to replace pipelines and are looking for new drugs.

**TLSR:** It was good talking with you again, Chen.

**CL:** Thank you, Zig. I appreciate the opportunity to talk with you.

Read Chen Lin's recent interviews in *The Gold Report* and *The Energy Report*.

Chen Lin writes the popular stock newsletter What Is Chen Buying? What Is Chen Selling?, published and distributed by Taylor Hard Money Advisors, Inc. While a doctoral candidate in aeronautical engineering at Princeton, Lin found his investment strategies were so profitable that he put his Ph.D. on the back burner. He employs a value-oriented approach and often demonstrates excellent market timing due to his exceptional technical analysis.

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