

Media release as at July 21, 2023

Interim report of BB Biotech AG as at June 30, 2023

Sector rotation and fund outflows weigh on biotech stocks, but positive developments allow fund raising to strengthen industry

The first half of 2023 has been disappointing for biotech investors. A massive rotation has put biotech stocks under pressure. Whereas positive developments ranging from M&A activity and new drug approvals to clinical trial readouts have hardly had an impact on investor sentiment towards the sector, any missteps, milestone failures for example, have often triggered heavy selling. In a positive sign, biotech funding activities have picked up again. A number of companies have been able to raise fresh capital thanks to positive news announcements. Another important factor is the future path of interest rates because interest rates have an impact on the cost of capital and on financial stability at the sector and individual company level. At the same time, BB Biotech notes that the financial strength and resilience of the companies in its investment portfolio are exceptional and clearly better than before the pandemic.

During the second quarter, the Nasdaq Biotech Index (NBI) was unable to keep pace with global bellwether indexes such as the Dow Jones or Euro Stoxx 50 index, which showed gains in the low-to mid-single-digit percentage range. Meanwhile the NBI was almost unchanged, down 1.0% in USD, and thus ended the first half of 2023 with a negative return of 2.8% in USD. This is mainly a reflection of the massive sector rotation witnessed during the second quarter, triggered by investor buying of tech titans offering AI exposure.

For the second quarter, BB Biotech's portfolio delivered a small gain of 1.6% in USD, slightly ahead of the Nasdaq Biotech Index. A devaluation of the US Dollar against the Swiss Franc resulted in a small loss of 0.6% in CHF for the second quarter 2023 for the Net Asset Value (NAV), corresponding to a net loss of CHF 13 mn. This compares to a net loss of CHF 233 mn for the same period in 2022. In stark contrast to the portfolio evolution, the share price of BB Biotech corrected by 21.8% in CHF in the second quarter. BB Biotech's shares, having traded for an extended period at a double-digit premium, traded at 5% discount to the NAV per share at the end of the second quarter.

For the first half of 2023, BB Biotech's NAV total return is a negative 9.8% in CHF, 8.6% in EUR and 6.9% in USD, all values including the dividend payment of CHF 2.85 per share, paid out on March 29, 2023. This resulted in a net loss of CHF 267 mn for the first half of 2023 compared to a net loss of CHF 533 mn in the same period last year.

Portfolio structure practically unchanged

During a relatively calm three-month period in terms of portfolio activity, the investment team executed minor reallocations within the portfolio. The generated cash enabled participation in a capital increase and extending of existing positions in open market transactions without further increasing the investment degree. BB Biotech ended the second quarter with an investment level of 113.7%, close to 114% at the end of the first quarter and 113.6% at the end of 2022.

Minimal profit taking in Vertex, Ionis and Incyte financed additions in select development stage companies like Black Diamond Therapeutics and Mersana Therapeutics. The investment management team increased the position in Black Diamond Therapeutics through open market transactions and opportunistically increased the position in Mersana Therapeutics after its price correction.

Portfolio company milestones

For the second quarter Agios announced positive results of achieving significant hemoglobin responses by treating patients with sickle cell disease with mitapivat. Moderna and its development partner Merck presented positive and intriguing proof of concept data for the individualized cancer vaccine mRNA-4157. Patients with high-risk melanoma following a complete resection were randomized to receive either Keytruda alone or Keytruda in combination with mRNA-4157. A significant risk reduction of 65% for development of distant metastasis and survival was reported.

Black Diamond Therapeutics updated investors on its dose escalation study for BDTX-1535, demonstrating which showed anti-tumor activity in non-small cell lung cancer (NSCLC) patients across multiple EGFR mutation families.

Relay Therapeutics presented an early update for RLY-2608, an inhibitor targeting multiple PI3K alpha mutations. Albeit that the drug profile for RLY-2608 achieved goals such as substantial inhibition of PI3K alpha, ctDNA reduction and a good tolerability profile avoiding more severe hyperglycemia, rash and diarrhea, investors were underwhelmed by the efficacy in terms of response rate so far presented.

Vertex presented positive early proof of concept for its stem cell program VX-880 for type I diabetes patients. VX-880 is an allogenic stem-cell derived, insulin producing islet cell therapy. Glucose sensing insulin production was shown for all six patients treated with VX-880, showing improved glycemic control while reducing or eliminating insulin use.

On the approval and regulatory level, Ionis and its cooperation partner Biogen should be highlighted who have been granted accelerated approval of Qalsody for the treatment of ALS patients who are SOD1 carriers. Further, Argenx announced the US FDA's approval of Vyvgart Hytrulo injection for subcutaneous use in patients suffering from generalized myasthenia gravis. This novel formulation presents an alternative delivery method and additional choice for patients. In another significant development, Argenx's Chinese partner, Zai Lab, announced the approval of Vyvgart in China.

Outlook for 2023

BB Biotech's existing portfolio comprises two well-established large-cap corporations, a substantial number of companies of both mid-cap baskets that possess a robust business case, and a broad diversification into entities with smaller market capitalization. The top holdings, representing the majority of our invested capital, predominantly reside within the large and mid-cap sectors. These holdings are projected to significantly influence our short to mid-term performance. Small-cap companies account for a less substantial portion of the portfolio's total weight. Investments in these entities may experience heightened volatility following key disclosures. However, due to their lesser portfolio representation, their performance impact is anticipated to be more pronounced over mid to long-term periods. Given recent milestones demonstrating both, positive and negative stock movements, the investment management team eagerly anticipates significant clinical milestones in our portfolio holdings by the end of 2023.

In addition to the forces of innovation and business strategies within the biotechnology industry, healthcare policies and politics will persistently influence and shape the sector and drug development field. The United States, being the primary market for biotechnology, places significant emphasis on policy implementations, such as the Inflation Reduction Act, which aims to lower out-of-pocket expenses for prescription drugs and benefits patients. Investors eagerly anticipate the publication of the CMS' drug negotiation basket on September 1, 2023.

Delisting of shares from the Milan Stock Exchange

Due to the very low trading volumes of BB Biotech shares on the Milan Stock Exchange and the exclusion from the FTSE Italia STAR Index as at June 16, 2023, the Board of Directors of BB Biotech has decided to have the company's shares – subject to the approval of Italian regulators – delisted from the Italian stock exchange. This delisting will lower BB Biotech's administrative costs and BB Biotech shareholders will still be able to buy and sell BB Biotech shares in EUR on the Frankfurt

Stock Exchange. BB Biotech's listing on the SIX Swiss Exchange will also not be affected by the delisting in Italy.

The quarterly report of BB Biotech AG as at June 30, 2023, can be downloaded at report.bbbiotech.ch/Q223 or www.bbbiotech.com.

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Company profile

BB Biotech AG is an investment company with its registered office in Schaffhausen/Switzerland and listed on the Swiss, German and Italian stock exchanges. It has invested in innovative drug developers headquartered primarily in the US and Western Europe. BB Biotech is one of the world's largest investors in this sector. The competent Board of Directors with its long-standing experience set the investment strategy and guidelines. Investment decisions are taken by the experienced investment management team of Bellevue Asset Management AG based on their extensive investment research.

Disclaimer

This release contains forward-looking statements and expectations as well as assessments, beliefs and assumptions. Such statements are based on the current expectations of BB Biotech, its directors and officers, and are, therefore, subject to risks and uncertainties that may change over time. As actual developments may significantly differ, BB Biotech and its directors and officers accept no responsibility in that regard. All forward-looking statements included in this release are made only as of the date of this release and BB Biotech and its directors and officers assume no obligation to update any forward-looking statements as a result of new information, future events or other factors.

Composition of BB Biotech's portfolio as at June 30, 2023

(in % of securities, rounded values)

Ionis Pharmaceuticals	13.3%
Argenx SE	11.7%
Vertex Pharmaceuticals	10.4%
Neurocrine Biosciences	8.5%
Intra-Cellular Therapies	6.9%
Moderna	6.2%
Alnylam Pharmaceuticals	5.8%
Incyte	5.7%
Sage Therapeutics	5.0%
Revolution Medicines	4.4%
Agios Pharmaceuticals	3.9%
Celldex Therapeutics	2.1%
Arvinas	1.8%
Relay Therapeutics	1.8%
Macrogenics	1.8%
Crispr Therapeutics	1.7%
Exelixis	1.7%
Black Diamond Therapeutics	1.4%
Fate Therapeutics	0.8%
Beam Therapeutics	0.8%
Essa Pharma	0.7%
Generation Bio Co.	0.7%
Rivus Pharmaceuticals ¹⁾	0.6%
Mersana Therapeutics	0.6%
Wave Life Sciences	0.6%
Scholar Rock Holding	0.6%
Esperion Therapeutics	0.2%
Molecular Templates	0.2%
Radius Health – CVR	0.0%
Total securities	CHF 2 572.7 mn
Other assets	CHF 5.7 mn
Other payables	CHF (316.0) mn
Net Asset Value	CHF 2 262.5 mn

¹⁾ Unlisted company