

Media release as of April 22, 2016

Interim Report of BB Biotech AG as of March 31, 2016

## Challenging first quarter for biotech investments

### Major regulatory approvals and significant clinical read-outs for portfolio companies pending

After a long and steady advance, the biotech sector experienced a steep correction of nearly 23% in the first quarter of 2016 (NBI in USD). Profit-taking and the debate among US presidential candidates over drug prices were the primary triggers for this short-term downturn. BB Biotech shares also retreated, by 16.5% in CHF, 17.4% in EUR and 13.0% in USD (incl. the dividend pay-out), which was far less than the benchmark index. The shares' discount to Net Asset Value therefore virtually vanished. BB Biotech reports a net loss of CHF 1.2 bn for the first quarter of 2016 compared to a net profit of CHF 379 mn for the same period last year. Although biotech stocks did not gain on news reports of product approvals and successful clinical outcomes in the first quarter, the outlook remains positive. BB Biotech views the current correction as a temporary move and is maintaining its positioning. At the Annual General Meeting on March 17, 2016, the Board of Directors reiterated its intention to pay out a dividend equivalent to a 5% yield.

2016 started off with a significant equity market correction. With equity indices stabilizing and recovering some of the substantial losses, the first quarter total return for the S&P 500 index was flat in USD, down 7.2% in EUR for the DAX and down 10.2% in CHF for the SMI.

Following several years of significant outperformance against the broad equity indices, the biotech sector valuations fell in association with profit-taking fueled by US presidential election campaigns promising hardly realizable moves on drug pricing. The NBI fell 22.9% in USD in Q1 2016, one of the most significant quarterly declines in history of the biotech equity markets.

### BB Biotech's performance for the first quarter of 2016

BB Biotech weathered this storm by focusing on high quality investments and a long term view. The total return for BB Biotech's share was better than the sector indices by around 10% and also ahead of the portfolio. Nevertheless, BB Biotech's shares declined 16.5% in CHF, 17.4% in EUR and 13.0% in USD, including the dividend payment. The difference between share price and the Net Asset Value – which was 18% at the end of 2015 – reduced to almost zero with the share price trading close to the book value of the assets.

The portfolio showed an overall loss of 30.1% in CHF, 30.5% in EUR and 27.1% in USD. Proportionally greater exposure to smaller and mid cap holdings, with the leverage maintained throughout the market correction, and the depreciation of the US dollar to the Euro and the Swiss Franc all resulted in a significant temporary drop in the value of the net assets of BB Biotech. For Q1 2016, BB Biotech's net loss amounts to CHF 1.2 bn, compared to a net profit of CHF 379 mn for the same period in 2015.

Total return calculations include the dividend distribution of CHF 14.50 per share in accordance with BB Biotech's proposed dividend policy and as approved by shareholders at this year's AGM on March 17, 2016. The distribution is another substantive increase compared to the dividend of last year, driven by the share price appreciation of 2015.

### Continued distribution and a five-for-one share split

BB Biotech paid its proposed dividend of CHF 14.50 per share, expending the remaining paid-in capital reserves by distributing CHF 12.25 per share, plus a regular cash dividend of CHF 2.25 per share. The board announced it will continue the current distribution policy in the future, paying a regular dividend calculated at 5% of the average December share price.

The share repurchase program ongoing throughout 2015 and the first quarter of 2016 reached was closed prior to the AGM having acquired 770 000 shares (before split) of BB Biotech through the second trading line. The AGM

approved the cancellation of these shares. Additionally, BB Biotech implemented a five-for-one share split on March 29, 2016. The total number of shares outstanding post the split is 59 250 000, or 55 400 000 after the deletion of the shares repurchased through the second trading line which is planned earliest in the second quarter of 2016.

A new share-repurchase program of a maximum of 10% of the outstanding shares, or 5 540 000 shares, was approved at the AGM and is required to close within a 36-months window. In combination with the dividend pay-out, this enables the continuation of the structured distribution policy to return capital to shareholders, providing them with up to 10% annual return.

### **First quarter portfolio activity**

Despite economic challenges and substantially increased volatility in the biotech equity markets, BB Biotech maintained most of its portfolio positions. The holdings in Swedish Orphan Biovitrum and Actelion were marginally reduced. In contrast, taking advantage of lower share prices, BB Biotech increased holdings in selected US smaller and mid cap companies such as Ionis, Incyte, Radius, Halozyme, Alnylam, Cempra, Sage, Esperion and Prothena. The team also increased the holding in Cidara, initiated in the fourth quarter 2015, throughout the first quarter 2016 and sold all of the remaining shares in the Tetrphase position following their failed Phase III study for Eravacyline.

At the beginning of 2016, BB Biotech's investment leverage was CHF 140.5 mn, or 3.5% of the net assets. On March 31, 2016, the leverage had increased to CHF 332.5 mn, or 12.8% of the net assets. The increase was attributed to the dividend pay-out of CHF 160 mn and the increase of BB Biotech's portfolio exposure to smaller and mid cap biotech companies.

### **Asymmetrical market reactions offer opportunity for future performance**

The biotech industry's continued progress is dependent on successful innovation, demonstrated by positive late stage clinical trials and ultimately new product approval status and successful commercialization. Unlike prior years, biotech equity markets showed muted responses to company announcements of progress during the first quarter of 2016. BB Biotech anticipates this sentiment to be temporary and continues to believe that developments and launch of innovative medicines will drive share price appreciation among our holdings.

Gilead achieved regulatory approvals for its TAF-containing HIV single tablets. TAF is Gilead's next generation Viread (Tenofovir) maintaining Viread's strong efficacy profile but with an improved side effect profile with TAF having less impact on the patient's bones and kidneys. TAF is the backbone product for Gilead to maintain leadership in the HIV market and to overcome the loss of exclusivity for Viread in the coming years. In March, the US FDA approved Odefsey, a fixed-dose combination containing Emtricitabine, Rilpivirine and TAF. In Europe, the CHMP adopted a positive opinion for Descovy, a fixed-dosed combination of Emtricitabine and TAF.

Actelion received a positive CHMP opinion for Selexipag in January 2016. Due to procedural changes, the EMA re-confirmed its positive recommendation once again in late March. BB Biotech now expects European launch during the second quarter of 2016.

Novo Nordisk shares fell in value when management updated its long-term financial goals for top line growth from mid-teens down to the 10%. The company regained some of the lost ground following announcement of two positive results from two important clinical studies. The LEADER study of Victoza in more than 9000 adult type 2 diabetic patients showed a reduction of cardiovascular death, non-fatal myocardial infarction and non-fatal stroke for Victoza in combination with standard of care. The SWITCH study showed that Tresiba is superior to Sanofi's Lantus for avoidance of hypoglycemia, both for symptomatic and nocturnal events. Both SWITCH and LEADER are expected to support further growth for Novo Nordisk's leading diabetes franchise for years to come.

Alder, a newer holding of BB Biotech focusing on CNS-related disorders, also reported positive clinical trial data. Alder reported two positive Phase II migraine prevention trials for ALD403, an anti-CGRP antibody. In addition to these data, Alder announced successful outcomes for the subcutaneous formulation of its CGRP antibody, opening the door for them to pursue development of a self-administered medication.

Markets were on the other hand surprised by the “refuse to file” letter issued by the FDA for PTC’s Ataluren. Consequently, PTC’s share price fell more than 80% in the first quarter of 2016. PTC has stated that they expect shortly a final European regulatory decision on Ataluren, in which it currently sells in some European countries based on a conditional approval.

In summary, large cap biotech share prices corrected by 10-20%, mid caps by 20-40% and a range of small caps fell by 40-50% during the first three months of 2016, often despite progress with their research programs. In BB Biotech’s view, the important milestones achieved have not generally been factored into company valuations yet. The team believes that these positive events presage upside as the biotech market recovers its poise.

### Outlook

BB Biotech anticipates 2016 to remain volatile for biotechnology equities. Nevertheless, product approvals and read-outs rate from key clinical trials are expected to accelerate throughout the remainder of the year and offer the potential for significant growth in share price valuations. Important regulatory milestones anticipated for companies in BB Biotech’s portfolio include:

- Intercept – obeticholic acid (OCA) for treating primary biliary cirrhosis
- Gilead – fix dose combination of Sofosbuvir/Velpatasvir for treating all genotypes of chronic hepatitis C viral infections
- Neurocrine – Valbenazine for treating patients suffering from tardive dyskinesia
- Radius – Abaloparatide-SC for the treatment of postmenopausal women with osteoporosis
- Medivation – label expansion for Xtandi for prostate cancer

Many important clinical trial results are also expected to impact company share prices, including:

- Tesaro – Niraparib, a PARP inhibitor for treating ovarian cancer patients and Clovis – Rucaparib, another PARP inhibitor for treating ovarian cancer patients
- Vertex – VX-661/ivacaftor combination for treating cystic fibrosis patients that are heterozygous for the F508 deletion
- Incyte – Epacadostat in multiple Phase II studies in combination with various PD1 antibodies for treating non-small cell lung cancer patients
- Celgene – Revlimid tested in the REMARC study for patients with diffuse large B-cell lymphoma
- Novavax – RSV vaccine Phase III data for elderly persons

Many more milestones are anticipated in 2016 and these are expected to support the strong fundamentals of the portfolio and the biotechnology sector.

With large pharmaceutical companies declaring their interest in M&A we may see increased consolidation with opportunities for favorable exit valuations for some biotech firms. In BB Biotech’s view, such take-over activity, while inherent unpredictable in timing and targets, is likely to impact the biotech markets the most in the short term. The portfolio continues to focus on innovations leading to effective and efficient treatment options.

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**Company profile**

BB Biotech invests in companies in the fast growing market of biotechnology and is one of the world's largest investors in this sector. BB Biotech is listed in Switzerland, Germany and Italy. Its investments are focused on listed companies that are developing and commercializing novel medical treatments and cures. BB Biotech's investment selection process is guided by the fundamental research and analysis of physicians and molecular biologists. Its Board of Directors has many years of experience in industry and science.

**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 of March 31, 2016

(in % of securities, rounded values)

Celgene	11.9%
Actelion	10.1%
Incyte	9.1%
Ionis Pharmaceuticals	9.0%
Gilead	8.4%
Alexion Pharmaceuticals	4.7%
Radius Health	4.5%
Neurocrine Biosciences	4.1%
Medivation	3.9%
Novo Nordisk	3.9%
Vertex Pharmaceuticals	3.6%
Agios Pharmaceuticals	2.9%
Alnylam Pharmaceuticals	2.5%
Regeneron Pharmaceuticals	2.4%
Swedish Orphan Biovitrum	2.4%
Halozyme Therapeutics	2.3%
Tesaro	1.8%
Juno Therapeutics	1.6%
Novavax	1.4%
Alder Biopharmaceuticals	1.2%
Cempra	1.2%
Kite Pharma	1.1%
Intercept Pharmaceuticals	1.1%
Probiodrug	0.9%
Sage Therapeutics	0.9%
Esperion Therapeutics	0.6%
Prothena Corp.	0.5%
Infinity Pharmaceuticals	0.5%
Puma Biotechnology	0.4%
Clovis Oncology	0.3%
Achillion Pharmaceuticals	0.3%
Cidara Therapeutics	0.3%
PTC Therapeutics	0.3%
Radius Health warrants 04/23/2018	0.1%
Radius Health warrants 02/19/2019	0.1%
Merck & Co Inc Contingent Value Rights – ex Trius/Cubist	0.0%
<b>Total securities</b>	<b>CHF 2 930.5 mn</b>
Other assets	CHF 22.0 mn
Other payables	CHF (354.5) mn
<b>Total shareholders' equity</b>	<b>CHF 2 597.9 mn</b>
Treasury shares (in % of company) <sup>1)</sup>	6.5%

1) Corresponds to the total of all own shares held including the second trading line