

Media release as of April 20, 2018

Interim report of BB Biotech AG as of March 31, 2018

BB Biotech share gains value in first quarter 2018 – several large-cap biotech companies trading at well below fundamental value

Volatility has returned to the markets, staging a revival in the first quarter of 2018. Regardless of the cautious investor sentiment, the BB Biotech share performed very well with an overall return (including dividend) of 8.8% in CHF and 7.3% in EUR. The portfolio trended sideways on the market, generating a profit of CHF 28 mn (CHF 375 mn in the corresponding period of the previous year). At the AGM on March 13, 2018, the Board of Directors confirmed the continuation of the payout policy. A number of portfolio companies – including Novo Nordisk, Neurocrines Partner Abbvie, Esperion, Alexion and Alder – published encouraging study results. Several large biotech companies are currently trading at well below their fundamental value, with pipeline successes and additional takeovers likely to boost key ratios and valuations.

Equity markets got off to a volatile start in 2018. The 2017 rally extended briefly into the first quarter 2018 but reversed by February as US fiscal policy tightened followed and faltered again in March as US and China trade wars loomed. For the quarter, the S&P 500 held steady with a negative 0.8% return, the Dow Jones lost 2.0% and the Nasdaq Composite Index gained 2.6% (all values as total returns in USD). In contrast to the US which was buoyed by a weakening US dollar, European market indices declined including Euro Stoxx 600, which was down 4.0%, the DAX index was down 6.4% in EUR, and the SPI was down 5.2% in CHF.

Healthcare followed broader US equity indices. The drug space was subject to speculative discussions about lower drug pricing. New ideas, such as payers sharing rebates with patients and more debate about value-based pricing continue to fuel intermittent anxieties about drug and other healthcare sub-sector stocks. The MSCI World Healthcare Index (-1.0%) and the Nasdaq Biotechnology Index (0.1%) traded sideways (all values in USD).

BB Biotech's performance for the first quarter 2018

Despite these headwinds, BB Biotech shares gained 8.8% in CHF and 7.3% in EUR in the first quarter 2018. The portfolio was essentially flat at +0.4% in CHF, -0.1% in EUR and +2.3% in USD. The net profit amounted to CHF 28 mn compared to a net profit of CHF 375 mn for the same period in 2017. The currency impact was -1.9% as the US dollar declined modestly against the Swiss Franc. Return calculations for BB Biotech take into account the dividend distribution approved by shareholders at the AGM on March 13, 2018.

Continued capital distribution

BB Biotech paid out that proposed dividend of CHF 3.30 per share. The Board confirmed the continuation of the dividend policy and anticipates pay out of a regular dividend of 5% of the prior December's average share price.

The eleventh share repurchase program, started in April 2016, which allows BB Biotech to acquire up to 10% of the company's outstanding shares over a period of up to three years, continues. BB Biotech did not trade on the second trading line in the first quarter of 2018, which means it has not been used since April 2016.

Increase of investment levels in the first three months of 2018

The management team increased short-term credits – increasing investment levels from 102.5% to 108.7% during the quarter. And in total, the dividend payout of CHF 183 mn plus investments in promising new and existing portfolio holdings modestly exceeded cash received from sale of Juno shares to Celgene which generated USD 164 mn of cash inflow for BB Biotech.

First quarter portfolio activity

As always, existing portfolio positions were carefully adjusted amid choppy equity markets. BB Biotech re-invested profits from holdings in Agios, Neurocrine, Sage, Alnylam and Gilead into firms which offered attractive re-entry levels such as Tesaro, Ionis and Regeneron and built further stakes in Akcea Therapeutics and Voyager Therapeutics.

Continuing the strategy of investing in innovative smaller and mid-cap companies, Moderna Therapeutics, a private company which is pioneering a new class mRNA medicine, has been added to the portfolio. Their pipeline includes candidates for vaccines and treatments in diverse therapeutic areas. Moderna has ten clinical trials underway and has so far raised more than USD 1.5 bn in equity and USD 1 bn in smart strategic deals. BB Biotech invested USD 70 mn into Moderna's Series G, broadening our RNA technology exposure which reached 19% of the portfolio by the end of the first quarter.

A second new portfolio position was initiated with Argenx being an antibody platform company with a range of mid-to-late stage clinical candidates – ARGX-113 being the most advanced. This molecule is being studied in three IgG-mediated autoimmune diseases. Important clinical trial read-outs are expected in the coming 12 months. A second candidate, ARGX-110, should begin proof-of-concept clinical trials for acute myeloid leukemia later in 2018.

Solid progress of the portfolio holdings

BB Biotech also saw key late-stage clinical trials data during the first quarter of 2018. Novo Nordisk reported positive results from the Phase III, PIONEER-1 trial of orally available semaglutide for type 2 diabetes. Oral semaglutide improved HbA1c (long-term blood sugar) at all dose levels tested. The highest dose also caused impressive weight loss (>4 kg at 26 weeks). Novo Nordisk expect to report nine more trials for oral semaglutide in 2018 and to file for approval in 2019. Once approved, oral semaglutide will allow Novo Nordisk to target a large and fast growing market segment.

Alder reported a second positive Phase III trial, PROMISE 2, for eptinezumab in chronic migraine prevention. One third of patients achieved at least 75% reduction of migraine days compared to baseline. About 15% of patients had no migraines for three months. If approved, Alder is expected to launch eptinezumab in 2019.

Alexion's late stage development candidate ALXN-1210 for complement inhibition in PNH patients was tested successfully. ALXN-1210 given every two months is similar in effect to Soliris given every two weeks for key endpoints such as transfusion avoidance and lactate dehydrogenase normalization. These data support a potentially attractive life-cycle extension play for Alexion as they intend to submit regulatory applications in the US, EU and Japan in the second half of 2018.

Neurocrine's partner Abbvie announced two positive Phase III studies, ELARIS UF-I and -II, for elagolix. In combination with low-dose hormone (add-back) therapy, elagolix reduced heavy menstrual bleeding in around 75% of women compared to around 10% in the placebo group. Abbvie expects to secure US FDA approval for the treatment of endometriosis in the third quarter of 2018 and will submit another application for uterine fibroids in 2019.

Esperion's STUDY 4 of bempedoic acid met its primary endpoint – lowering LDL-C by 24% in patients on either ezetimibe or low dose statin. The company is expected to report four additional Phase III studies in 2018 and submit a new drug application in early 2019.

Two of BB Biotech's portfolio companies scored FDA approvals in Q1 2018. Gilead won approval for Bictarvy, a triple combination HIV pill. Vertex won approval of Symdeko – their third cystic fibrosis drug – this one for patients >12 years old with homozygous or heterozygous F508del mutation.

The management team was disappointed to learn that Celgene got a surprise refusal-to-file letter from the FDA for ozanimod in relapsing multiple sclerosis. Also, Radius got a negative vote from the EMA for Abaloparatide-sc for treating osteoporosis in postmenopausal women.

Despite some Wall Street expectations, M&A activities have not accelerated yet – even in the wake of cash repatriation and tax reform. BB Biotech continues to enjoy and anticipates attractive exits such as Kite – sold to Gilead for USD 12 bn in 2017, and Juno – sold to Celgene for USD 9 bn in January 2018 – realizing a net profit for BB Biotech of USD 96 mn. With this transaction, both BB Biotech holdings focusing on cell-based therapies were taken over by large cap biotechnology companies.

Outlook

Important milestones are expected in biotech for 2018 – and the management team believes these will overcome the short-term downturn in sentiment seen in the first quarter. Several large cap biotechnology companies currently trade well below fundamental value, so we expect pipeline successes and more takeovers to drive multiples and valuations higher.

In a highly anticipated study, Incyte reported that Epacadostat, tested in combination with Keytruda in patients with unresectable or metastatic melanoma, did not add benefit over Keytruda monotherapy. However, BB Biotech assumes that investor's attention will shift towards the company's remaining broad pipeline. For the rest of the year, further late stage clinical trial results and product approvals are expected to drive equity value. In addition, the management team anticipates M&A activities will continue. Pharmaceutical and large biotechnology companies have stated real interest in acquisition of leading technologies.

The US healthcare system – now largely influenced by the leadership of Alex Azar (HHS) and Scott Gottlieb (FDA) – will move towards improved price transparency driving changes in the somewhat testy relationships between payers, PBMs, providers and the drug industry. BB Biotech's longstanding commitment to invest in leading technologies, addressing unmet medical needs with sustainable economic value continues to underpin its strong and optimistic commitment to the sector. The management team will continue to add promising new smaller and mid-cap positions to the investment portfolio and manage the portfolio actively to produce the best results for the shareholders.

The complete interim report as at March 31, 2018 is available on www.bbbiotech.com

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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, 2018

(in % of securities, rounded values)

Ionis Pharmaceuticals	9.8%
Incyte	8.0%
Celgene	7.7%
Neurocrine Biosciences	7.3%
Vertex Pharmaceuticals	6.3%
Radius Health	5.5%
Agios Pharmaceuticals	5.4%
Gilead	5.2%
Esperion Therapeutics	4.5%
Halozyme Therapeutics	4.3%
Sage Therapeutics	4.2%
Alexion Pharmaceuticals	4.0%
Novo Nordisk	3.6%
Anylam Pharmaceuticals	3.1%
Regeneron Pharmaceuticals	2.5%
Tesaro	2.4%
Myovant Sciences	1.9%
Moderna Therapeutics ¹⁾	1.8%
Macrogenics	1.7%
Akcea Therapeutics	1.6%
Avexis	1.3%
Intra-Cellular Therapies	1.2%
Voyager Therapeutics	1.0%
Wave Life Sciences	0.9%
Intercept Pharmaceuticals	0.9%
Argenx SE	0.8%
Alder Biopharmaceuticals	0.7%
Novavax	0.5%
Five Prime Therapeutics	0.4%
Prothena Corp.	0.4%
Probiodrug	0.4%
Cidara Therapeutics	0.2%
Achillion Pharmaceuticals	0.1%
Idorsia	0.1%
Radius Health Warrants, 04/23/2018	0.1%
Radius Health Warrants, 02/19/2019	<0.1%
Total securities	CHF 3 679.8 mn
Other assets	CHF 9.3 mn
Other payables	CHF (305.0) mn
Net asset value	CHF 3 384.1 mn

1) Unlisted company