

Media release as of April 21, 2017

Interim Report of BB Biotech AG as of March 31, 2017

## **BB Biotech reports pleasing quarterly results**

**The Swiss investment company with a special focus on small and mid-cap biotech stocks earned a bottom-line profit of CHF 375 mn in the first quarter of 2017**

**BB Biotech's share price advanced 7.7% in CHF and 7.1% in EUR in the first quarter amid a generally positive market environment. The healthcare sector showed signs of strength. Market-moving news stemmed primarily from the US, where Congressional leaders temporarily shelved a vote to repeal and replace Obamacare. In keeping with its strategy of investing in promising small and mid-cap stocks, BB Biotech opened a position in Five Prime Therapeutics. Profits were realized in the core shareholdings of Incyte, Celgene and Actelion and the proceeds reinvested to build up positions in numerous mid-cap stocks. The Board of Directors reiterated the company's shareholder-friendly dividend policy at the Annual General Meeting on March 16, 2017, consisting of a 5% dividend yield and share buybacks. Drug pricing practices and regulations will remain one of the key topics of discussion with regard to US healthcare policy in 2017. In the meanwhile, an even greater number of biotech products are likely to receive regulatory approval compared to last year.**

Overall, equity markets performed well in the first quarter of 2017 driven by hopes for stimulation of the US economy by lower corporate tax rates, potential repatriation of offshore cash and investments in infrastructure alluded to by President Trump. The S&P 500 gained 6.1%, the Dow Jones gained 5.2% and the Nasdaq Composite Index gained 10.1 (all values in USD). European equity indices followed the same trend, apparently disregarding Brexit implications and national election risks, so that the Euro Stoxx 600 gained 6.3%, and the Dax Index gained 7.3% in EUR while the SPI's gained 7.5% in CHF.

Healthcare markets were again influenced by a seesaw US healthcare agenda driven between the White House and Congress. Initial drafts of 'repeal and replace' legislation for the Affordable Care Act (ACA) failed to win sufficient votes in Congress after intensive debate and attempts at last-minute back-room deal making – at least for now. The associated short-term volatility and tweets however could not stop the overall positive trend in broad healthcare equity markets including the MSCI World Healthcare Index, which gained 8.7% in USD, and the Nasdaq Biotech Index, which gained 10.8% in USD for the quarter.

### **BB Biotech's performance for the first quarter 2017**

The total return for BB Biotech's share price was +7.7% in CHF and +7.1% in EUR for the first three months of 2017. The portfolio showed an overall gain of 12.5% in CHF, 12.4% in EUR and 14.4% in USD. Net profit of CHF 375 mn (CHF 1.2 bn loss in the corresponding period of the previous year) was driven by the overall portfolio appreciation. The currency impact in the first quarter was -1.9% as the US dollar fell against the Swiss Franc.

All total return calculations for BB Biotech take account of the dividend distribution of CHF 2.75 per share as set by BB Biotech's dividend policy, which was approved by shareholders at this year's AGM of March 16, 2017.

### **Continued capital distribution**

BB Biotech paid out the proposed dividend of CHF 2.75 per share. The board confirmed continuation of the dividend policy, and expects to pay out a regular dividend calculated as 5% of the previous December average share price.

The eleventh share repurchase program – started in April 2016 – continues, and allows BB Biotech to acquire up to 10% of the company's outstanding shares over a period of up to three years. Given the ongoing reduced difference between BB Biotech's Net Asset Value and share price, the company did not trade on the second trading line in the first quarter 2017 – in fact, that trading line has not yet been activated since April 2016.

**First quarter portfolio activity**

Existing portfolio positions were carefully adjusted amid volatile, yet upward-trending biotechnology equity market. BB Biotech took further profits from the core positions in Incyte, Celgene and Actelion – generating cash to increase its core positions in Novo Nordisk, Ionis and in several of its mid-sized investments.

Continuing its strategy of investing in new promising smaller and mid-cap companies, BB Biotech added Five Prime Therapeutics to its portfolio in the first quarter of 2017. Located in South San Francisco, Five Prime is developing its lead asset FPA008, an anti-CSF1R (macrophage colony stimulating factor) antibody which blocks CSF1 and IL34 ligand binding. FPA008 is in clinical trials as monotherapy and in combination with Opdivo, Bristol Myers Squibb's PD1 antibody, in cancer patients. The same antibody is being developed for pigmented villonodular synovitis (PVNS), a macrophage-driven tumor. In PVNS, macrophages express high levels of CSF1 and attract cells with CSF1 receptors to the joint, leading to the accumulation of non-neoplastic cells that form a tumor. Results for the Phase II study are expected in 2017.

**Solid progress of portfolio holdings**

Incyte (+33.3% in USD during 1Q 2017), BB Biotech's largest position at the end of March, announced further progress in the clinical development of epacadostat, an IDO1 inhibitor. Incyte will begin additional pivotal studies testing epacadostat in combination with Merck's Keytruda as well as with Bristol-Myers Squibb's Opdivo. These moves position epacadostat as a leading agent which is likely to be combined with approved, market leading PD1 antibodies. The Phase II data, which prompted these exciting additional trials, will be presented in June at the 2017 meeting of the American Society of Clinical Oncology (ASCO).

Ionis (-16.0% in USD during 1Q 2017) announced Phase III data for volanesorsen in patients with familial chylomicronemia syndrome (FCS). The primary endpoint – triglyceride lowering – was met, showing a 77% reduction for volanesorsen versus an 18% increase for control group patients. But in addition, investors focused on safety data – and were disappointed by reports of thrombocytopenia and injection site reactions, leading to a significant correction of Ionis' share price. Nevertheless, BB Biotech is encouraged that there were no further cases of severe thrombocytopenia nor patient dropouts during the final 6-months of the study, following implementation of a monitoring program. Ionis intends to file volanesorsen for marketing approval in the US in the third quarter of 2017.

In late January, Johnson & Johnson announced their intention to acquire Actelion (+28.0% in CHF during 1Q 2017) for USD 30 bn, or USD 280 per Actelion share. BB Biotech's end of Q1 2017 position means the sale will generate around USD 270 mn in cash upon once the deal is closed. In addition, BB Biotech will receive approximately one million shares of Idorsia, the spinout company that will retain Actelion's earlier stage pipeline. The main offer period ended on March 30, 2017, by which time 73.3% of Actelion's outstanding shares had been tendered and Actelion's shareholders had voted in favor of the demerger of Idorsia. BB Biotech believes that the transaction is on track to be completed in the second quarter of 2017.

Vertex (+48.4% in USD during 1Q 2017) reported positive data from two Phase III studies of Kalydeco plus VX-661 in cystic fibrosis. Slightly better efficacy, but significantly improved tolerability were reported for patients who are carriers of the F508 deletion mutation on both alleles (so-called homozygotes), compared to Vertex's other product, Orkambi. Strong clinical benefit and good tolerability were reported for patients with residual function of the CFTR gene. If approved, the combination of VX-661 and Kalydeco should enable use of the treatment both in patients with residual function and also in some patients who previously stopped their Orkambi monotherapy treatment. Additional new data for various triple combination treatments (Kalydeco, Orkambi and VX-661 together) are eagerly anticipated in the second half of 2017.

Kite (+75% in USD during 1Q 2017) released positive topline results from their complete pivotal trial population given KTE-019 to treat relapsed/refractory diffuse large B cell lymphoma (DLBCL). The data showed an impressive overall response rate of 82% including an initial complete response rate of 49%, (31% at 6 months) in this difficult-to-treat population. The median survival of the patients had not been reached after 8.7 months of follow-up. These data compare favorably with the initial complete response rate of just 8% and median survival of 6.6 months for historical controls. BB Biotech anticipates the approval of KTE-019 by the US FDA during 2017.

Esperion's share price (+182% in USD during 1Q 2017) benefited strongly from Amgen's positive cardiovascular outcomes trial data for its PCSK9 antibody, Repatha. Amgen's data demonstrated once more that lowering LDL-cholesterol levels reduces clinical cardiovascular risk. Esperion also received encouraging news that the FDA is willing to grant an initial approval based on demonstration of LDL-cholesterol lowering.

## Outlook

BB Biotech expects the US healthcare reform debate to simmer (discussion of the Affordable Care Act continues in Congress). Unless there is rapid consensus and action, which seems unlikely, the debate seems likely to focus on access to care and coverage – rather than purely on healthcare costs. However, drug pricing may remain a popular topic for Presidential tweets, and more serious initiatives may be expected around “best-prices” and “value-based prices” during 2017 and beyond. Each of these topics – particularly when tweeted by Donald Trump – will continue to rattle media interest and investor sentiment, but the related risk appears to be priced in for some time now.

In contrast to the perennial political debate around drug prices and government payment, the biopharmaceutical industry has experienced increasing pressure on drug prices and on patient access by pharmacy benefit managers (PBMs) and private insurance companies for years. BB Biotech's long standing criteria for selecting investments in companies delivering drugs for unmet medical needs and an increasing focus on pharmacoeconomic driven price policy are solid grounds for confidence in its investments.

For the remainder of 2017, BB Biotech expects a series of late stage clinical trial read-outs and an increase in the number of product approvals during 2017 compared to 2016. Merger and acquisition activities are also expected to continue to drive the performance of the biotech sector from time-to-time. Johnson & Johnson's acquisition of Actelion is expected to deliver significant cash for BB Biotech in the second quarter. BB Biotech will consider selective increases in undervalued portfolio positions and continue to add promising new smaller and mid-cap positions to its investment portfolio.

The complete interim report as at March 31, 2017 is available on [www.bbbiotech.com](http://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, 2017

(in % of securities, rounded values)

Incyte	13.3%
Celgene	11.8%
Ionis Pharmaceuticals	8.5%
Actelion	7.7%
Gilead	5.4%
Radius Health	5.0%
Agios Pharmaceuticals	4.7%
Vertex Pharmaceuticals	4.5%
Alexion Pharmaceuticals	4.2%
Neurocrine Biosciences	3.9%
Tesaro	3.6%
Novo Nordisk	3.4%
Halozyne Therapeutics	2.9%
Regeneron Pharmaceuticals	2.7%
Sage Therapeutics	2.0%
Alnylam Pharmaceuticals	1.8%
Kite Pharma	1.7%
Esperion Therapeutics	1.4%
Juno Therapeutics	1.4%
Macrogenics	1.2%
Swedish Orphan Biovitrum	1.2%
Myovant Sciences	1.1%
Alder Biopharmaceuticals	1.0%
Intra-Cellular Therapies	0.9%
Intercept Pharmaceuticals	0.8%
Five Prime Therapeutics	0.7%
AveXis	0.7%
Prothena Corp.	0.6%
Probiodrug	0.5%
Novavax	0.3%
Puma Biotechnology	0.3%
Cidara Therapeutics	0.2%
PTC Therapeutics	0.2%
Achillion Pharmaceuticals	0.2%
Radius Health warrants 04/23/2018	0.1%
Radius Health warrants 02/19/2019	0.1%
<b>Total securities</b>	<b>CHF 3 524.2 mn</b>
Other assets	CHF 7.3 mn
Other payables	CHF (313.7) mn
<b>Total shareholders' equity</b>	<b>CHF 3 217.9 mn</b>
Treasury shares (in % of company) <sup>1)</sup>	0.3%

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