

Bit Market Services

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Media release as of October 16, 2015

Interim report of BB Biotech AG as of September 30, 2015

Third quarter marked by volatile markets and increasingly nervous biotech investors

After advancing steadily during the preceding quarters, biotech stocks gave up some of those gains in the third quarter

Volatile stock markets and fears of sector-wide drug pricing regulations led to a major correction in biotech stocks during the third quarter. The Nasdaq Biotech Index fell 17.9% in USD. BB Biotech shares ended the quarter with a decline of 10.1% in USD, which was clearly better than the index performance. Lower stock prices created attractive entry points and BB Biotech took advantage of them by investing CHF 290 mn in existing shareholdings as well as two portfolio additions, Esperion and Prothena. Amid the stock market volatility, companies in BB Biotech's portfolio continued to launch new products and they also released positive clinical trial results. Looking ahead, further regulatory approvals can be expected. Companies awaiting approval announcements include Actelion (treatment of pulmonary arterial hypertension), Alexion (lysosomal acid lipase deficiency) and Gilead (HIV therapy).

The third quarter proved to be difficult for the global equity markets. With the emerging equity market correction continuing well into the third quarter and the US Federal Reserve bank once more pushing out its rate increase decision, global market indices lost ground and turned negative for the year. The MSCI World Equity Index lost in USD 8.3% in this period, the S&P 500 corrected by 6.4% in USD, the SMI 2.9% in CHF and the DAX 11.7% in EUR. Since the beginning of the year, key equity benchmarks all lost value, such as the MSCI World Equity Index down USD 5.6%, the S&P 500 down 5.3% in USD, the SMI down 2.4% in CHF and the DAX down 1.5% in EUR.

The biotechnology equity markets weathered these general turbulences very well given continued strong business execution, M&A activity and many equity portfolios maintaining their growth orientation. In mid-September, the biotech sector sold off more than 20% in two weeks given renewed debate over US drug pricing regulations. One important agenda item once again raised in the ongoing US presidential election campaigns involves healthcare access and high drug costs. Although selected specialty pharmaceutical companies were called upon to consider their aggressive drug pricing, all drug development companies were sold off.

BB Biotech, with its focus on investing in innovative research and development companies, considered the correction as overdone and therefore invested its cash quota, which amounted to around CHF 200 mn in late July. A lower single digit percentage leverage was also added in late September. Most of the cash was invested in existing large and mid-cap positions trading at very attractive valuations and to a minor degree in two new companies – Esperion and Prothena.

BB Biotech's third quarter performance, measured as the Net Asset Value (NAV), was a negative 14.2% in CHF, 17.9% in EUR and 17.7% in USD. This was in line with the sector with the NBI losing 17.9% in USD. BB Biotech's share price held up better and corrected 6.3% in CHF, 9.5% in EUR and 10.1% in USD. The third quarter portfolio performance led to a third quarter net loss of CHF 575 mn, compared to a gain of CHF 483 mn for the same period last year.

Nine months 2015 performance

For the nine months of 2015, BB Biotech's total return for shareholders was a positive 13.8% in CHF, 25.6% in EUR and 16.0% in USD. For the same period, the NAV gained 3.7% in CHF, 14.4% in EUR and 5.7% in USD, with all these parameters including the cash distribution of CHF 11.60 per share.

The resulting net profit for the first nine months of 2015 amounts to CHF 141 mn – compared to a net profit of CHF 744 mn for the same period of the previous year. BB Biotech's assets per end of September amount to CHF 3.46 bn, a slight decline over the end of 2014 value of CHF 3.49 bn.

BB Biotech continued its share repurchase program in the third quarter and bought back 52 873 shares of BB Biotech over the second trading line. Since the initiation of this share repurchase program 687 598 shares have so far been repurchased representing about a 58% completion rate.

Significant progress of the portfolio companies

With the NAV performance in the third quarter of 2015 being negative, many portfolio holdings nevertheless reported significant progress such as product approvals, updates on clinical trials, and good financial results for the first six months of 2015. The fundamental strength of the sector was proven by most of the second quarter results from the large-cap companies. Gilead, Celgene and Amgen all delivered solid financial results for the first six months of 2015, and confirmed or increased revenue and profit guidance for the year. In contrast, Biogen Idec experienced a sharp share price correction by not holding up to the previously announced 2015 revenue and profit guidance.

With increased overall market volatility, BB Biotech's mid-cap exposure experienced significant performance swings, both to the upside and downside. Incyte and Radius were two highlights in the mid-cap portfolio achieving share price gains in a challenging equity market. Radius, beginning its registration process for Abaloparatide-SC for the treatment of osteoporosis, has reported initial safety findings from its early stage SERD program RAD1901 for the treatment of breast cancer patients, with clinical activity to be reported soon at a medical conference. Incyte announced further progress with its lead inflammatory product baricitinib, a Jak1/2 inhibitor in development with Eli Lilly, with a further positive Phase III study for treating rheumatoid arthritis patients. Investors' focus is much more on epacadostat, an IDO-1 inhibitor, where early data in combination with both checkpoint inhibitors from the CTLA4 and PD1 class indicate clinical activity. Many mid-caps such as Agios and Halozyme experienced sharp drops in their valuations, often without any fundamental updates. Some of these significant price moves have been driven by fund flows turning negative for the sector as well as an increase in short selling, thus investors speculating on sinking share prices in the future. Tetrphase on the other hand announced a failed Phase III study for Eravacycline leading to a subsequent loss of more than 75% in market cap.

Further new products approvals were achieved in the third quarter through the biotech industry. Within BB Biotech portfolio holdings, the following products were approved in key markets such as the US and the EU:

- US approval of Praluent (alirocumab) from Regeneron/Sanofi to treat certain patients with high cholesterol
- US approval of Orkambi (lumacaftor 200 mg / ivacaftor 125 mg) from Vertex to treat cystic fibrosis patients carrying two copies of F508del mutations
- US approval of Varubi (rolapitant) from Tesaro for nausea and vomiting associated with cancer therapy
- EU positive CHMP opinion for Elocta (rFVIII Fc) from Swedish Orphan Biovitrum for the treatment of hemophilia A
- US approval of Tresiba (insulin degludec) from Novo Nordisk for treating diabetes in adults

For the same period, important Phase III study results were announced by some of our portfolio companies, including:

- Novo Nordisk announced superiority for Semaglutide against Bydureon (Astra Zeneca) on blood glucose lowering and weight loss
- Gilead announced high cure rates for its fix dose combination of Sofosbuvir (SOF) and Velpatasvir (VEL) for the treatment of all six hepatitis C genotypes
- Tetrphase announced not having achieved its primary endpoint with Eravacycline in complicated urinary tract infection

In contrast to the flurry of milestones reached, takeover activities experienced a pause in the third quarter, with fewer transactions announced. Besides proving the often cyclical behavior of the acquirers, another recent trend observed is that more and more mid and larger cap takeover targets are not accepting the acquisition terms.

Portfolio adjustments in the third quarter

The most substantial shift in the portfolio between end of June and end of September was the cash management. With the CHF 133 mn cash announced per end of the second quarter, BB Biotech realized the remaining gains of its Receptos holding following its acquisition by Celgene. This led to peak cash levels at the end of July of around CHF 200 mn net cash. Given the mentioned equity market corrections, BB Biotech reinvested around CHF 290 mn in the market using the generated cash and adding an additional CHF 90 mn of borrowed capital. The investment allocation was mostly towards large and selected mid-cap companies already in the portfolio and to a lesser degree to two new holdings. Both Esperion and Prothena fit well with BB Biotech's strategy of expanding its exposure to the mid-cap biotech universe.

Esperion is developing ETC-1002, an ATP citrate lyase inhibitor for the reduction of LDL levels in patients not tolerating statins or as add-on therapy to statins for patients not adequately controlled for cholesterol levels. The company plans to initiate registration studies in 2016.

Prothena's lead program NEOD001 is developed for AL amyloidosis, the most common form of systemic amyloidosis. Cells in the bone marrow overproduce light chains that can be deposited in peripheral organs such as the heart, kidney, liver, skin, gastrointestinal tract and even nerve cells. Prothena's monoclonal antibody targets the amyloid that is accumulated in AL amyloidosis, with the company testing NEOD001 in a registrational study.

Additionally to the Receptos position, the remaining small positions in both Theravance and Theravance Biopharma were sold early in the third quarter.

Portfolio drivers and milestones until year end 2015

Although healthcare equity markets are likely to be affected by further US political campaign headlines concerning healthcare reform and price controls, investor reaction is expected to be more rational and selective. Investors will carefully monitor the Q3 results for sales revenue achieved from the recently introduced products with a big emphasis on large product classes such as the PCSK9 antibodies as well as the dynamic and continued multi-billion dollar HCV market.

BB Biotech's investment strategy continues to first identify high unmet medical needs being addressed with innovative new products based on extensive research and development efforts and second by companies well managed and allowing us to generate attractive returns for our shareholders. These products will continue to be rewarded by the healthcare system due to the differentiated and significant efficacy and safety benefits that enable them to provide value to the healthcare providers and system.

The investment portfolio continues to reflect a balance between large and established companies, mid-caps well positioned to become future large-cap companies with sustainable revenue and profits, and smaller capitalized companies with attractive pipeline assets that could develop into the next generation mid-cap companies.

With 2015 being well advanced, BB Biotech expects many more clinical trial results and important medical meeting updates for the fourth quarter. Further product approvals are expected from the portfolio holdings before year end, including:

- Upravi (selexipag) from Actelion to treat pulmonary arterial hypertension patients
- Kanuma (sebelipase alpha) from Alexion to treat lysosomal acid lipase deficiency
- Strensiq (asphotase alpha) from-Alexion to treat hypophosphatasia
- Tenofovir alafenamide fumarate (TAF), a novel nucleotide reverse transcriptase inhibitor from Gilead to treat HIV-infected patients

The valuations of the large-cap companies have reached average 2016 price to earnings multiples similar to the S&P 500, which is back to the lowest relative levels over the last years. BB Biotech is confident that the strong fundamentals of the sector, and even more so of its portfolio holdings, will be adequately reflected over time.

The interim report as of September 30, 2015 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 with CHF 3.5 bn in assets under management. 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 September 30, 2015

(in % of securities, rounded values)

Incyte	11.4%
Celgene	10.7%
Radius Health	8.1%
Actelion	7.6%
Gilead	7.5%
Isis Pharmaceuticals	7.4%
Alexion Pharmaceuticals	4.4%
Agios Pharmaceuticals	4.1%
Vertex Pharmaceuticals	3.9%
Neurocrine Biosciences	3.5%
Medivation	3.0%
Novo Nordisk	2.8%
Regeneron Pharmaceuticals	2.6%
Halozyne Therapeutics	2.6%
Alnylam Pharmaceuticals	2.5%
Swedish Orphan Biovitrum	2.0%
Novavax	1.6%
Clovis Oncology	1.6%
Juno Therapeutics	1.5%
Cempra	1.4%
Alder Biopharmaceuticals	1.4%
Tesaro	1.3%
Kite Pharma	1.1%
Puma Biotechnology	1.1%
Intercept Pharmaceuticals	1.0%
PTC Therapeutics	1.0%
Probiodrug	0.6%
Infinity Pharmaceuticals	0.6%
Esperion Therapeutics	0.6%
Prothena Corp.	0.4%
Tetraphase Pharmaceuticals	0.3%
Achillion Pharmaceuticals	0.2%
Radius Health Warrants, 23.04.2018	0.2%
Radius Health Warrants, 19.02.2019	0.1%
Merck & Co Inc Contingent Value Rights – ex Trius/Cubist	0.0%
Total securities	CHF 3 548.4 mn
Other assets	CHF 3.8 mn
Other payables	CHF (94.1) mn
Total shareholders' equity	CHF 3 485.1 mn
Treasury shares (in % of company) ¹⁾	6.2%

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

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