

Media release as of January 26, 2012

Portfolio of BB Biotech AG as of December 31, 2011

## **BB Biotech closes 2011 with a positive performance and confirms upward trend**

**Despite strong headwinds from the financial markets, BB Biotech achieved a positive performance of 5.6% in CHF and 8.6% in EUR (incl. dividends) in 2011 with a strong recovery during the fourth quarter. 2011 was a gratifying year for the global biotechnology industry. Regulators approved 13 new biotech products and major R&D milestones were reached all while the industry's revenues and profits exceeded market expectations. The expected news flow from biotech pipelines in 2012 also bodes well for the current year. BB Biotech continued to restructure its portfolio during the past year by gradually reducing large positions in order to build smaller investments in companies with high growth potential.**

The biotechnology sector made impressive progress during the past year. Neither the government debt crisis nor recessionary pressures nor all the turmoil on the currency front were able to stop the Nasdaq Biotech Index from closing the year in positive territory. In the fourth quarter alone, the index advanced 11.9% (in USD), which ultimately led to a gain of 11.8% for the year as a whole. BB Biotech's share price increased by an even better 14.9% (in CHF) and 16.8% (in EUR) during the fourth quarter of 2011, while its performance for the full year stood at 5.6% in CHF and 8.6% in EUR (incl. dividends). The Net Asset Value (NAV) ended the fourth quarter with a sequential gain of 12.9% in CHF and 13.0% in EUR. The main reason for the divergence to the Nasdaq Biotech Index was the over-weighted position in Actelion, which had a disappointing 2011. BB Biotech repurchased in the fourth quarter a total of 565 125 shares via a second line of trading, ensuring the smooth and well measured implementation of its share buyback program. As a result, the discount was steadily reduced from 23.8% at the beginning of the year to 20.0% at the end of Q3, down to 18.5% by the end of the year. The goal for 2012 is to bring the discount within the targeted range of 10% to 15%, and maintain that level.

2011 was a year of progress for the global biotechnology industry. Regulators approved 13 new biotech products, numerous milestones were reached on the research and development front, and sector sales and profits grew at above-average rates, all of which helped the industry to repeatedly beat market expectations. That said, the overall gains obscure a certain polarity within the sector where a cluster of companies came out clearly on top and several companies ended on the bottom.

The major product approvals that were anticipated at the beginning of 2011 became reality. Several of the companies in BB Biotech's portfolio cleared this all-important hurdle and were able to bring new products to the market. Vertex reported an impressive market uptake of Incivek, its drug for treating hepatitis C (HCV) patients. Dendreon disappointed when it withdrew its sales guidance for its prostate cancer immunotherapy, Provenge. The announcement from Dendreon caused an immediate sell-off in several other launch and pre-launch stories, and this trend carried through the entire H2 of 2011. Other companies in BB Biotech's portfolio that received regulatory approval for their products during the course of the past year were Incyte (Jakafi), Optimer (Dificid) and Gilead (Complera). In contrast to the successful US companies, the share prices of most European biotechnology stocks suffered big losses.

Once again, M&A activity had a major influence on market sentiment towards the biotech sector. The transaction of the year was clearly Gilead's USD 11 bn offer for Pharmasset, which valued the company's shares at a 90% premium to their previous closing price. This deal closed in January 2012 and will give Gilead a dominant position in HCV, in addition to its strong HIV franchise. BB Biotech had invested 4 percentage points of its NAV in Pharmasset at the time the offer was announced and it subsequently sold most of the shares at a correspondingly high profit. Pharmasset became the most heavily weighted stock in the Nasdaq Biotech Index thanks to Gilead's takeover bid and ended the year with a remarkable gain of 489%.

### **Portfolio performance and valuation in the fourth quarter of 2011**

**Celgene** (+9.2%, in USD), the largest investment in the portfolio, rose to its year-to-date high at the end of the fourth quarter. It presented strong data at the ASH meeting (hematology) in December bolstering Revlimid's long-

term sales potential. Data on Pomalidomide, an IMiD compound in the pipeline for relapsed and refractory multiple myeloma patients, was also greeted with enthusiasm.

**Actelion's** stock (+6.4%, in CHF) stabilized during the fourth quarter. Investors are beginning to take positions ahead of the release of important trial data on Macitentan during the first half of 2012.

Investors welcomed **Gilead's** (+5.5%, in USD) takeover bid for Pharmasset. Although some critical voices were raised about the hefty price tag, the general consensus is that the price of this strategic acquisition was justified by the potential of Pharmasset's nucleotide analog PSI-7977 for HCV.

**Vertex** (-25.3%, in USD) was marked down due to soft monthly sales numbers for Incivek and the release of positive trial data from potential competitors. Investor focus in the coming months will shift to the regulatory decision on its Kalydeco drug for the treatment of cystic fibrosis patients. A decision by the FDA will be announced in April 2012 after priority review was granted in December.

**Novo Nordisk** (+18.7%, in DKK) profited from its positive sales and profit guidance for 2012 as well as from investor portfolio reallocation into large caps.

Among BB Biotech's mid-sized participations, **Pharmasset** (+55.6%, in USD), **Halozyme** (+54.9%, in USD) and **Micromet** (+49.8%, in USD) made stellar gains in the final quarter of the year. Halozyme pleased investors when it announced that it had signed more PH20 technology licensing agreements. Micromet's share price jumped after the presentation of promising data on Blinatumomab at the ASH meeting. The share price reaction was based on the fact that a very high rate of response had been achieved in adult patients with relapsed or refractory ALL and that management might seek accelerated approval for this lead product candidate. On the other hand, some companies in the midst of launching new products had disappointing news. As previously mentioned, **Dendreon** (-15.6%, in USD) suffered due to lower than forecasted sales. In addition, while the market launch of Benlysta by **Human Genome Sciences** (-41.8%, in USD) is proceeding according to schedule, its sales have been short of market expectations. We continue to forecast significant sales potential for Benlysta in the medium term.

#### **Reallocation and repositioning of portfolio assets in 2011**

The large portfolio positions held at the beginning of the year were reduced to allow diversification into faster growing companies. We reduced our positions in Celgene, Vertex, Gilead and Actelion, selling CHF 321 mn of our holdings in their stocks. Adding more exposure to small and mid-cap stocks has, we believe, enhanced our growth prospects.

We have two positions with a more than 10% weighting of Net Asset Value at the end of 2011: Celgene, the market leader for blood cancer treatment (multiple myeloma) with a strategically strong position and a very attractive valuation, and Actelion, which faces a landmark year in 2012 after disappointing shareholders in 2011. Four companies each had a weighting of 5% to 10% of NAV: Vertex, Gilead, Novo Nordisk and Incyte. Like Vertex, Incyte also achieved an important milestone in 2011 when Jakafi received regulatory approval. Incyte expects to generate initial sales with this product in 2012. Consequently, every major company in the portfolio has products in the market and, with the exception of Incyte, is highly profitable and generating excellent cash flows.

A total of seven companies have a weighting of 3% to 5% of NAV. Two of these are BioMarin and Alexion, companies that are likewise achieving sales and profits. Our other investments in this segment are focused on companies with promising drug candidates and technology platforms – Micromet, Immunogen, Isis, Halozyme and Ariad. The portfolio is rounded out with an additional 16 positions, each accounting for less than 3% of NAV. Here we have made two investments in private, unlisted companies – Probiodrug and Radius – and three of these positions are in India – Glenmark, Lupin and Strides.

Most of the profits realized from the position in Pharmasset in the fourth quarter were invested in Ariad. Ariad is developing Ponatinib as the next generation BCR-ABL tyrosine kinase inhibitor (TKI). Promising data from a pivotal study of Ponatinib in patients with chronic myeloid leukemia (CML) were presented at the 2011 ASH meeting. A high rate of response was achieved in CML patients who were resistant or intolerant to prior therapy with Gleevec or approved second-generation TKIs. Ariad should be able to file for approval in 2012 if the final outcome of the study is positive.

### **Positioning and outlook for 2012**

The problem of government debt and related cost-cutting in healthcare will remain a major issue. Yet repercussions for biotech companies are expected to be mitigated by strong fundamentals in this sector and the provision of high value medicines. Globally, BB Biotech expects drug prices to remain under pressure. An increasingly important aspect in this context is that drugs should not only have a beneficial effect on the patient population but also be of value for the healthcare system and insurers. These are criteria that are also reflected in our investment decisions, as the portfolio has long been structured around innovative and effective drugs with a positive cost/benefit ratio.

Portfolio performance in 2012 will be influenced by clinical news flow, key product approvals, and by new product launches. Celgene appears to be on the verge of receiving European approval for Revlimid as a first-line treatment for patients with multiple myeloma. It will also be releasing Phase III data from several studies of its lead late-stage candidate Apremilast in patients with psoriasis and psoriatic arthritis. The year 2012 will be decisive for Actelion, the second-largest position held by BB Biotech. If Macitentan exhibits a better profile than Tracleer in an ongoing long-term study, it will bolster Actelion's leadership position in pulmonary arterial hypertension. Actelion may also be able to strengthen its market presence with Selexipag. For Vertex, efforts to maintain dominance in the HCV market with Incivek and the timely development of other drugs in pipeline will be key drivers. In particular, we anticipate that Kalydeco, the Vertex personalized drug for selected patients with cystic fibrosis, should be approved for marketing in April. Incyte will be measured by the success of the Jakafi launch. It will also be releasing important Phase II data from a study with its JAK inhibitor for the treatment of arthritis that is being conducted through a partnership with Eli Lilly.

Our portfolio consists of well established, highly profitable companies with strong top-line growth and a complementary selection of companies with late-stage product candidates that also have excellent growth prospects. We are confident that we are well positioned for the future.

A webcast with Dr. Daniel Koller can be viewed at [www.bbbiotech.com](http://www.bbbiotech.com). The complete annual report as of December 31, 2011 will be published on **February 23, 2012**.

### **For further information:**

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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 around CHF 1.2 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.

## Composition of BB Biotech's portfolio as of December 31, 2011

(in % of securities, rounded values)

Celgene	15.9%
Actelion	12.3%
Vertex Pharmaceuticals	8.4%
Gilead	6.7%
Novo Nordisk	6.7%
Incyte	6.4%
Isis Pharmaceuticals	4.4%
Micromet	4.0%
Immunogen	3.9%
Halozyme Therapeutics	3.8%
Ariad Pharmaceuticals	3.3%
BioMarin Pharmaceutical	2.8%
Alexion Pharmaceuticals	2.7%
Amylin Pharmaceuticals	2.3%
Pharmasset	1.6%
Theravance	1.6%
Idenix Pharmaceuticals	1.5%
Optimer Pharmaceuticals	1.5%
Achillion Pharmaceuticals	1.3%
Swedish Orphan Biovitrum	1.3%
Human Genome Sciences	1.2%
Dendreon	1.0%
Bavarian Nordic	1.0%
Lupin	0.8%
Glenmark Pharmaceuticals	0.8%
Strides Arcolab	0.4%
Endocyte	0.2%
Probiodrug <sup>1)</sup>	1.3%
Radius Health <sup>1)</sup>	0.8%
SWAP agreement on treasury shares	<0.1%
<b>Total securities</b>	<b>CHF 1 117.9 mn</b>
Other assets	CHF 33.7 mn
Other payables	CHF (149.9) mn
<b>Total shareholder's equity</b>	<b>CHF 1 001.7 mn</b>
Treasury shares (in % of company) <sup>2)</sup>	19.7%

1) Unlisted company

2) Correspond to the total of all own shares held in Switzerland, Germany and Italy including the second trading line