

## Company update

**BUY** (Unchanged)

**Target: € 57.0** (Unchanged)

Risk: High

### STOCK DATA

Price CHF / €	42.1
Bloomberg Code	BB IM
Market Cap. (CHF / € mn)	1,090
Free Float	97%
Shares Out. (mn)	18.2
52-week range	41-52.4
Daily Volumes	0.01

### PERFORMANCE

	1M	3M	12M
Absolute	-10.9%	-14.3%	-0.6%
Rel. to FTSE all shares	-1.7%	-6.5%	3.8%

### MAIN METRICS

	2009	2010E	2011E
Eps - CHF cents	180.8	-107.0	-92.5
Dps ord. - CHF cents	370.0	330.0	330.0
Dps ord. - € cents	246.5	232.2	232.2

### NAV

	2009	2010E	2011E
NAV ord. ps - CHF	90.7	81.6	81.6
NAV ord. ps - €	60.4	57.4	57.4
Listed assets	99%	99%	99%

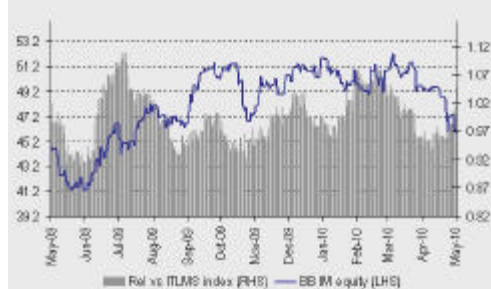
### MULTIPLES

	2009	2010E	2011E
PNAV	0.84 x	0.73 x	0.73 x
PBV	0.91 x	0.76 x	0.81 x
PE	42.0 x	n.m.	n.m.

### INDEBTEDNESS

	2009	2010E	2011E
NFP	52	-31	-108
D/E	n.m.	0.0 x	n.a.
Debt to assets ratio	0.0 x	0.1 x	0.1 x

### PRICE ORD LAST 365 DAYS



### ANALYSTS

Martino De Ambroggi

+39 02 6204 238

m.deambroggi@equitasim.it

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## APPEALING DISCOUNT TO NAV (27%)

**Buy recommendation reiterated since the discount to NAV is high (27% vs historical avg. at 7%), the mandatory dividend yield is interesting (potentially 5.5%) and buy-back aiming to cancel shares is ongoing. Speculative appeal (similar to BB Medtech) unlikely but we believe not ruled out in the long run.**

### ■ Positive features always valid

**Catalysts evidenced in our initiation of coverage are still valid, supporting our Buy recommendation:**

- **The high discount to NAV at which it is trading (27%, vs peak of 34% in Dec-08 and vs. an average of 7% since injection in 1993)**
- **The extremely positive track record, i.e. since 1993 to:**
  - **NAV 10.6% CAGR** (in USD), outperforming the NBI Index by 120%
  - **Stock 8.9% CAGR** (in USD)
- **Treatment for shareholders that we consider extremely fair:**
  - **“Mandatory” dividends**, inversely proportional to the annual avg. discount on NAV (in FY10E, based on YTD avg. discount a 5.3% yield is expected vs usual no pay-out for biotech companies)
  - **“Systematic” buyback** if the discount on NAV exceeds 10%; after already having cancelled its treasury shares 5 times, BBB have started its 6<sup>th</sup> plan (so far bought back about 4% of the capital);
  - **Performance fees only in the event of “exceptional returns”** whose threshold is constantly increased” (i.e. 47% as of March).

### ■ Buy recommendation confirmed

As a consequence **we reiterate our Buy because of the:**

- **Still high discount to official NAV (27%);**
- **Appealing “mandatory” dividend** (likely around 5.5%);
- **6<sup>th</sup> buy-back plan started last September**, aiming to cancel shares to reduce discount (so far bought about 790k shares investing € 40 mn);
- **Performance fees only in the event of “exceptional returns”;**
- **Lower worries concerning the US healthcare reform.**

### ■ Target (=NAV) confirmed at €57 PS

As BBB is an investment company (like a fund with prevalently listed assets), **in fixing the target price we think it right not to apply any discount to the official NAV of €57.65 PS** (or CHF 81.95 PS) – despite not ruling out that **sector expertise is difficult to emulate and the management track record may even deserve a premium.**

### ■ NAV performance: positive FY09, weak YTD

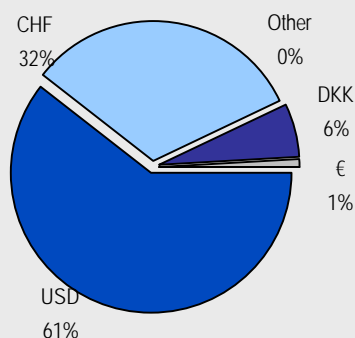
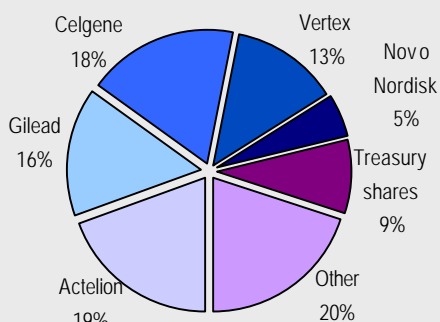
In FY09 BBB NAV had a **positive absolute performance (+6% in USD)** but underperformed NBI index (-10%). **YTD NAV performance was weak** (-17% in USD), underperforming the NBI index (-16%) mainly because of biotech large caps weakness, with **Actelion as main responsible** (the most important asset representing 19% of NAV).

### ■ Speculative appeal? We still believe no but ...

**Last September conversion of “twin” fund BB Medtech from an investment company** (typically trading at a discount) **into a fund** (trading at NAV) **aiming to remove the discount to NAV was finalised.** We think that a similar scenario for BBB is unlikely in the short-term; nevertheless, **it cannot be ruled out in the medium term if discount does not narrow.**

**BUSINESS DESCRIPTION**

BB Biotech AG is an investment company investing globally in biotech companies with the aim of achieving an average annual return of 15%. It was founded in Switzerland in November 1993 with a starting capital of CHF 0.3 bn. Management style distinctive feature: prevalence of listed assets (>90%), approximately 20 to 30 holdings (o/w no more than 5 accounting for more than 10% of equity and the largest should not exceed 25%), and very limited gearing.

**CURRENCY PORTFOLIO SPLIT - 2010****MOST IMPORTANT ASSETS (% ON NAV) - 2010**

MAIN FIGURES € mn	2007	2008	2009	2010E	2011E	2012E
Gains from marketable securities	0	73	52	-4	0	0
Dividends	1	1	1	1	1	1
Forex Gains	0	0	1	0	0	0
Interest Income	0	0	0	0	0	0
Other revenues	0	0	0	0	0	0
<b>Total revenues</b>	<b>1</b>	<b>74</b>	<b>54</b>	<b>-3</b>	<b>1</b>	<b>1</b>
Growth	-100%	5763%	-26%	n.m.	n.m.	0%
Losses from marketable securities	-212	0	0	0	0	0
Interest expenses	-14	-11	-6	-6	-6	-7
Forex losses net	-1	-3	0	0	0	0
Commissions	-4	0	0	0	0	0
Other Expenses	-36	-14	-11	-11	-11	-11
<b>Total expenses</b>	<b>-267</b>	<b>-28</b>	<b>-17</b>	<b>-17</b>	<b>-17</b>	<b>-18</b>
Growth	1182%	-89%	-41%	0%	3%	3%
<b>Taxes</b>	<b>0</b>	<b>0</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>0</b>
Tax rate	0%	0%	2%	-1%	-1%	-1%
<b>Net income</b>	<b>-265</b>	<b>45</b>	<b>37</b>	<b>-19</b>	<b>-17</b>	<b>-17</b>
Growth	n.m.	n.m.	-19%	n.m.	n.m.	n.m.
Margin	n.m.	61.4%	67.4%	749.4%	n.m.	n.m.
<b>Adj. net income</b>	<b>-263</b>	<b>45</b>	<b>37</b>	<b>-19</b>	<b>-17</b>	<b>-17</b>
Growth	n.m.	n.m.	-18%	n.m.	n.m.	n.m.
Margin	-20861%	61%	68%	738%	-3097%	-3180%

SHARE DATA	2007	2008	2009	2010E	2011E	2012E
Nav ps ord - CHF	78.5	74.3	90.7	81.6	81.6	81.6
EPS - CHF cents	-1,144.0	208.5	180.8	-107.0	-92.5	-95.0
Growth	n.m.	n.m.	-13%	n.m.	n.m.	n.m.
Adj. EPS - CHF cents	-1,132.1	206.7	183.0	-105.3	-91.1	-94.0
Growth	n.m.	n.m.	-11%	n.m.	n.m.	n.m.
DPS ord - CHF cents	90.0	180.0	370.0	330.0	330.0	330.0

MARKET RATIOS	2007	2008	2009	2010E	2011E	2012E
PNAV ord	1.12 x	0.86 x	0.84 x	0.73 x	0.73 x	0.73 x
PBV	1.12 x	0.86 x	0.91 x	0.76 x	0.81 x	0.86 x
P/E ord	n.m.	30.8 x	42.0 x	n.m.	n.m.	n.m.
P/E ord Adj	n.m.	31.0 x	41.5 x	n.m.	n.m.	n.m.

REMUNERATION	2007	2008	2009	2010E	2011E	2012E
Div. Yield ord	1.0%	2.8%	4.9%	5.5%	5.5%	5.5%
ROE	-13.2%	2.8%	2.4%	-1.3%	1.2%	1.3%

INDEBTNESS	2007	2008	2009	2010E	2011E	2012E
NFP	-265	-75	52	-31	-108	-185
D/E	0.15	0.05	n.m.	0.02	n.a.	n.a.
Debt to assets ratio	0.1 x	0.0 x	0.0 x	0.1 x	0.1 x	0.2 x

STOCK DATA	2007	2008	2009	2010E	2011E	2012E
Div. Yield ord	1.0%	2.8%	4.9%	5.5%	5.5%	5.5%
ROE	-13.2%	2.8%	2.4%	-1.3%	-1.2%	-1.3%
ROCE	-15.1%	-1.9%	-1.2%	-1.2%	-1.2%	-1.2%

MAIN FIGURES IN €	2007	2008	2009	2010E	2011E	2012E
Nav ps ord - €	47.3	48.4	60.4	57.4	57.4	57.4
EPS - € cents	-689.3	135.8	120.4	-75.3	-65.1	-67.0
Growth	n.m.	n.m.	-0.1	n.m.	n.m.	n.m.
Adj. EPS - € cents	-682.1	134.6	121.9	-74.1	-64.1	-66.0
DPS ord - € cents	54.2	117.2	246.5	232.2	232.2	232.2

Source: Company data and EQUITA SIM estimates

## MINOR ADJUSTMENTS TO MANAGEMENT STYLE

**BBB invests selectively in companies operating in the growing market of innovative medications and diagnostics based on modern biotechnology. BBB's objective is to generate an average return of 15% p.a. (and as a consequence to outperform the Nasdaq Biotechnology Index) in a long-term perspective. To do this it invests in companies with the potential to double asset value in a 4-year period as a result of innovation drive, new products for serious illnesses, and outstanding management.**

### Management style remains firmly anchored to original cornerstones:

- a. **Diversification:** the target portfolio consists of approximately 20 to 30 holdings (out of a total of over 300 companies covered) of which no more than 5 accounting for more than 10% of equity and the largest of which should not exceed 25%.
- b. **Unlisted assets:** listed assets have always clearly predominated (typically accounting for over 90% of the total). Although this implies “replicability” of the portfolio by the individual investor, it has the undoubted advantage of assuring very high visibility and good liquidity of assets.
- c. **Non-active style:** although undertaking intensive contact with management, in no case has BBB played an active role in influencing strategic choices or has undertaken any initiatives at shareholder meetings.
- d. **Cash:** BBB has typically kept a limited amount of cash more for management needs (buybacks and dividends, etc.) than as a strategic choice. Since it was launch in 1993, on average cash was roughly 3% of total assets, hitting a peak during 2001-02 financial crisis at 11%, while over the last 6 years it came down below 1%.
- e. **Gearing:** BBB has historically invested up to 105-115% of AUM. At present, financial leverage is around 2% also because of dividend payment (around CHF 65 mn) but if an investment opportunity were to arise, it could use it immediately as the company has **revocable lines of credit available of CHF 250 mn and CHF 100 mn** (subject to pledges on portfolio stocks).
- f. **Target companies:** BBB's objective is to invest in stocks offering potential to double their value in a 4-year time span.
- g. **Derivatives:** historically speaking, they have been prudently used to hedge volatility risk.
- h. **Portfolio turnover:** no explicit guidance or rules. Historically ranging from the peak of 2.0x achieved in 1996 (when AUM were much lower than today) and the low 0.52x recorded in 2008.

With the change in BBB's management last September (see our short note no. 344 dated 9 October 2009), the **only changes in style concern the decision to:**

- **Reduce the weight of large caps in the portfolio in favour of small-mid caps.** 1Q10 featured the first steps in this respect (see next section). Consequently:
  - The concentration of core assets is set to decrease (vs. the last 5 years' average of 69%)
  - Portfolio diversification is set to increase (albeit limiting invested stocks to about 30)
  - Volatility is also set to increase as small-mid cap companies are typically more exposed to pipeline risk, with lower recurrent FCF and lower stock liquidity.

**This choice is consistent with performance targets (15% p.a.) and is based on exploitation of the management team's expertise.**

- **Stop hedging the USD exchange-rate risk** (relating to about 50% of the USD denominated portfolio) as from the beginning of this year. So far the decision has turned out to be right as the YTD forex effect has been positive, we estimate of about 5% of NAV. Hedging of the USD exchange-risk for the first time in FY09 enabled BBB to gain USD 32 mn. There is instead no need to hedge exchange-rate risk for the Euro, as it accounts for only 1% of the portfolio

## PORTFOLIO: FEW CHANGES IN 1Q10

The adjustments made to the portfolio in 1Q10 show the first effects of this strategy:

- **Actelion has been reduced by -8%** (i.e. by 0.6 mn shares), with the stake thus decreasing to 5.3%. Its share of NAV has decreased to 22% (vs. over 30% 12 months ago) – but this was also due to the stock's weak performance (down by –24% YTD in CHF, penalized by Tracleer®'s failure to pass the test of efficacy in prolonging survival in cases of idiopathic pulmonary fibrosis – meaning that one of the most important long-term growth drivers has disappeared (€ 1 bn estimated peak sales). We do not rule out further reduction of its portfolio weight
- **3 small new investments** have entered the portfolio (Bavarian, Intercell and Immunogen), which account for only 1.3% of total assets
- **3 minor positions** have instead left the portfolio (combined weight below 0.5%), after having performed unsatisfactorily during their presence in the portfolio (Keryx and Epigenomics making a slight loss and Clinuvel making a slight profit)

**1Q10 net profit at totalled CHF 41 mn thanks to gains from marketable securities** (vs last year loss at CHF 92 mn), causing 3% NAV increase.

## 6<sup>th</sup> BUY-BACK PLAN: UPDATE

We remind that since 2004 BBB has systematically executed 5 buyback plans when the discount topped 10%:

- Investing CHF 843 mn in the 6-year period 2004-09, repurchasing in total 37.2% of share capital;
- Buying at discount vs. NAV (we estimate between 10-15% for the 5<sup>th</sup> share buy back);
- Cancelling approximately 93% (100% of 2<sup>nd</sup> trading lines) of shares repurchased.

### BBB BUY-BACK HISTORICAL TRACK RECORD

Buy Back	Period	N.shares (mn)	as a % Total	Investment (CHF mn)	BVPS (CHF)	Destroyed (mn)	Resulting Nr. Shares	on total bought back	as a % on outstanding	as % starting total
no. 1	During 2004	2.10	8.0%	157.2	74.88	-2.10	24.1	100%	8.0%	8.0%
no. 2	May 8th 2006 - Nov. 1st 2006	2.57	9.8%	199.1	77.45	-1.80	22.3	70%	7.5%	6.9%
no. 3	Nov. 8th 2006 - March 2007	1.40	5.3%	127.6	91.16	-1.40	20.9	100%	6.3%	5.3%
no. 4	Sep. 19th 2007 - Apr. 3rd 2008	2.25	8.6%	189.3	84.15	-2.25	18.7	100%	11%	8.6%
no. 5	Apr. 24th 2008 - Jan. 28th 2009	2.03	7.7%	169.5	83.71	-2.03	16.6	100%	11%	7.7%
<b>Total</b>		<b>10.35</b>	<b>39.5%</b>	<b>842.8</b>	<b>81.47</b>	<b>-9.58</b>		<b>93%</b>		<b>36.5%</b>

Source: Company data

**On September 16<sup>th</sup> 2009 the sixth buy-back restarted** always with the final goal to reduce the discount by cancelling shares. Management adopted a slow mode policy: **so far BBB bought 790k shares (around 4.3% of capital) at an average price of CHF 72.9 PS with a total investment of about €40 mn** (see Bloomberg code BIOEE SW).

## TOWARDS A FURTHER HIGH DIVIDEND YIELD

As from 2003 (when the average discount started to exceed 5%), BBB started to pay dividends **(in cash) adopting a mandatory distribution policy as an inversely proportional function of the FY average arithmetical discount to NAV of daily closing prices**. As a consequence in the period 2003-09 the average yield was 2.6% (calculated on year-end market cap.).

BBB: MANDATORY RULE FOR DIVIDEND PAYMENT	
Avg. FY discount vs. NAV	Yield on year-end NAV
>5 – <=10%	1%
>10 – <=15%	2%
>15 – <=20%	3%
>20%	4%

Source: Company data

This rule works as an incentive for managers in order to reduce the discount to NAV because every distribution is reducing AUM and thus also management fees. **It is worth mentioning this policy can be changed if approved by the BoD.**

It has to be underlined that since dividends are calculated as a percentage of year-end NAV, and FY average discount, it is subject to a certain level of volatility. **YTD average discount to NAV is 23.6%, so far indicating a dividend at 4% of year-end NAV (i.e. a yield of about 5.5% at current market price)**. In order to have the lower threshold (3% of NAV, or about 4.1% dividend yield) the average discount to NAV for the rest of the year should go down to 17.4%.

## VICIOUS CIRCLE TO BE BLOCKED

In the absence of recovery of valuations at sector level and/or narrowing of the discount vs. NAV, the need may once again return to the forefront to **find a solution in order to avoid “AUM haemorrhaging” caused by:**

- **Both the “mandatory” dividend** to be distributed on the basis of a market friendly rule: the higher the discount to NAV is, the higher is the dividend to be paid;
- **The ongoing buy-back** aiming to cancel shares to reduce the discount.

On July 7<sup>th</sup> **the friendly 1:1 swap offer for shares of BB Medtech** (BBB's “twin” fund), **to be converted from an investment company into a fund** (Luxembourg-based) **was announced**. On September 28<sup>th</sup> the deal was successfully finalised with 94.25% subscription (or almost 95% including treasury shares). **Final goal consists in removing the discount to NAV** (roughly 18% in the 12 months before announcing the deal), transforming the investment company (which usually traded at a discount) into a fund whose shares are exclusively traded at NAV.

BB Medtech (specialised in medical technology instead of biotech) is managed by Bellevue (founding company like for BBB), but is smaller (at the time of the announcement market cap CHF 0.6 bn vs. CHF 1.5 bn of BBB).

**We think that it is unlikely** that BB Biotech could also be involved in a similar deal **in the short-term** given:

- The difficulty to raise enough cash to be used for such a deal;
- The shareholding structure is much more fragmented and geographically diversified than BB Medtech (with more complicated legal implications);
- The risk of losing AUM after the deal (having the possibility to sell shares without discount vs current 17% discount) and therefore also management fees;
- The existence of a new biotech Sicav (trading at NAV) already launched in March 2009 by Bellevue.

Nevertheless, **it cannot be totally ruled out in the medium term if discount to NAV does not narrow**.

## “CORE” ASSETS PERFORMANCE

**BBB NAV YTD performance is negative by 25%** because of the negative stock market's trend and the negative sentiment on the biotech sector due to:

- **the US healthcare reform** (albeit less so that had initially been feared, since management agrees with consensus estimates that the reform will have a modest negative short-term impact on top line, around -2% for biotech companies; in the long-term view, as more patients should be treated the impact should be positive (for both pharma and biotech companies))
- **the recently approved extraordinary budget laws in Europe** aiming to reduce the countries deficit, some of them including drugs price cut
- **the slowdown in M&A activities over the past few months.**

**The 5 most important stocks in portfolio (accounting for 71% of NAV) have lost on average -5%**, mainly attributable to Actelion following the negative newsflow concerning Tracleer®'s failure.

### BBB “CORE” ASSETS PERFORMANCE YTD

Company name	Curr.	Current Market cap	BB Biotech		Market price			Change	Exchange rate			Market price in €		Change	Weighted Ch'ange *
			Stake	NAV weight	31-Dec-09	current	Currency		31-Dec-09	current	31-Dec-09	current			
ACTELION	CHF	5,403	5.3%	19%	55.22	41.9	-24%	EUR/CHF	1.483	1.421	37.2	29.5	-21%	-5.2%	
GILEAD	USD	32,251	0.6%	16%	43.27	35.9	-17%	EUR/USD	1.433	1.229	30.2	29.2	-3%	-0.5%	
CELGENE	USD	24,619	0.9%	18%	55.68	52.8	-5%	EUR/USD	1.433	1.229	38.8	42.9	10%	1.9%	
VERTEX	USD	6,964	2.4%	13%	42.85	34.6	-19%	EUR/USD	1.433	1.229	29.9	28.1	-6%	-0.8%	
NOVO NORDISK	DKK	279,420	0.2%	5%	332.0	467.5	41%	EUR/DKK	7.442	7.440	44.6	62.8	41%	1.5%	
<b>AVERAGE</b>				<b>71%</b>			<b>-5%</b>						<b>4.3%</b>	<b>-0.6%</b>	

\* using weight at the beginning of the year

Source: EQUITA SIM on market and company data

## MAIN NEWSFLOW IN FORTHCOMING MONTHS FOR CORE ASSETS

Below we list the main events that could have an impact BBB's core assets:

### MAIN ASSETS EXPECTED NEWSFLOW

Company	Disease	When	What
Celgene	Multiple myeloma	June	ASCO (American Society of Clinical Oncology): data on Revlimid® for transplanted patients and as maintenance therapy.
Gilead	HIV	June	Publication of Phase III data for TMC278 (a molecule currently being co-developed with J&J), which will replace Sustiva® (featuring very strong side effects)
Vertex	Hepatitis C	2Q10	First Phase III data on Telaprevir (already issued - see following section)
Actelion	SHA (Subarachnoid Haemorrhage)	October	Publication of data on Clazosentan
	Insomnia	2Q10	Publication of Phase III data for Almorexant
Novo Nordisk	Diabetes	End of June	ADA (American Diabetes Association): publication of Phase II data on long-acting insulin

Source: EQUITA SIM on available data

**On May 25<sup>th</sup> Vertex announced positive results for phase 3 testing of Telaprevir** (potential blockbuster which treats Hepatitis C). FDA filing expected by summer with hope of obtaining approval by 1H11; consensus peak sales in excess of 3bn. The day after the announcement Vertex bounced 2%.

## PERFORMANCE FEES VERY FAR

The mechanism underpinning performance fees is extremely fair as it is not relative but absolute: **fees are paid only when the market price (not NAV) exceeds given thresholds** (set according to the timing and prices of past capital increases) which, by virtue of the company bylaws, are:

- **Increased on a quarterly basis in line with the stock's performance**, with a 5% floor and 20% cap
- **Reduced when dividends are paid.**

**These thresholds are particularly high** (even the lowest one would imply a 86% absolute performance), simultaneously ensuring:

- Asset managers' commitment to achieving them
- Payment of performance fees only in the event of very strong absolute performance.

PERFORMANCE FEES TRESHOLD (as of Mar-10)				
	% shares	Treshold *		Upside vs market price
		CHF	€	
First	70.1%	111.5	111.5	86%
Second	14.4%	114.1	114.1	91%
Third	3.6%	118.3	118.3	98%
Forth	6.1%	262.1	262.1	338%
Fifth	5.8%	270.0	270.0	351%
TOTAL	100.0%			
Weighted avg		130.5		117%

\* not including the dividend distribution (CHF 3.7)

Source: EQUITA SIM on company data

**In the last 6 years, the performance fee has been achieved only in 2007** (taking the FY07 expense ratio up to 1.61%).

## "CORE" ASSETS PEG PENALISED BY ACTELION

**"Core" stocks' PEG ratio** (based on consensus estimates and current market prices) **is higher than in the past** (last 5-year average of about 0.8x) because it is **penalised by**

- **Actelion** for which the market is projecting a low single digit growth (and we believe also for this management is currently reducing the weight)
- **Vertex** for which a strong profitability improvement is expected but so far it is still unprofitable.

2010 "CORE" ASSETS PEG						
5 Core Shareholdings	% NAV Weight	Current Price	EPS 2010E	PE 2010E	EPS Growth 10 – 13E	PEG
ACTELION	19%	42.1	399	10.6	4%	2.86
GILEAD	16%	36.2	362	10.0	14%	0.72
CELGENE	18%	53.4	265	20.2	22%	0.90
VERTEX PHARMACEUTICALS	13%	34.4	-332	n.m.	n.m.	n.m.
NOVO NORDISK	5%	467.5	2,180	21.4	13%	1.64
<b>Avg.</b>				<b>14.3</b>	<b>13%</b>	<b>1.57</b>
<b>Median</b>				<b>15.4</b>	<b>13%</b>	<b>1.27</b>

Source: EQUITA SIM estimates on IBES consensus estimates

**Excluding Actolin PEG would be 0.93x, or 0.68x taking into account BBB is currently trading at 27% discount to NAV.**

## VALUATION AND SENSITIVITY

The official NAV issued today by the company is € 57.65 PS (or CHF 81.95 PS), meaning that the stock is trading at a discount of about 27%.

Below we present our NAV which differs slightly (usually by around 1-3%) from official NAV issued on a daily basis because it:

- Is based on portfolio stocks held as at the end of the previous quarter (not reflecting any changes occurring since then, as movements, except in the case of significant changes, are disclosed only on a quarterly basis);
- Includes treasury shares not earmarked for sale at market value (whereas BBB's calculation assumes cancellation of all treasury shares as per US GAAPs);
- Includes derivatives, mark to market value disclosed at the end of the previous quarter (not reflecting subsequent mark-to-market value which in any case uses to have a little impact);
- Excludes prorated management and performance fees, which are instead included in official NAV.

BB BIOTECH NAV									
Asset	Sector	Stake %	Shares (mn)	Currency	PS	CHF PS *	CHF mn	%	Valuation
Actelion	Biotech	5.3%	6.9	CHF	41.9	41.9	289	19%	Market price
Gilead	Biotech	0.6%	5.6	USD	35.9	41.5	233	16%	Market price
Celgene	Biotech	0.9%	4.4	USD	52.8	61.0	266	18%	Market price
Vertex Pharmaceuticals	Biotech	2.4%	4.8	USD	34.6	40.0	192	13%	Market price
Novo Nordisk	Biotech	0.2%	0.9	DKK	467.5	89.3	78	5%	Market price
Micromet	Biotech	6.2%	5.0	USD	6.1	7.0	35	2%	Market price
Incyte	Biotech	2.5%	3.0	USD	12.9	14.9	44	3%	Market price
Zymogenetics	Biotech	8.2%	7.0	USD	4.7	5.4	38	3%	Market price
Roche holding	Pharmaceutical	0.0%	0.2	CHF	158.7	158.7	24	2%	Market price
Amgen	Biotech	1.1%	0.5	USD	71.7	82.8	41	3%	Market price
Genzyme	Biotech	0.2%	0.5	USD	48.7	56.2	28	2%	Market price
Arena Pharmaceuticals	Pharmaceutical	5.4%	5.4	USD	3.1	3.6	19	1%	Market price
Basilea Pharmaceutica	Pharmaceutical	2.1%	0.2	CHF	70.3	70.3	14	1%	Market price
Affymetrix	Biotech	2.8%	2.0	USD	6.6	7.6	15	1%	Market price
Optimer Pharmaceuticals	Pharmaceutical	2.6%	1.0	USD	10.7	12.3	12	1%	Market price
Bavarian Nordic	Biotech	2.4%	0.3	DKK	224.5	42.9	12	1%	Market price
Elan	Biotech	0.3%	1.5	USD	5.7	6.6	10	1%	Market price
Biogen Idec	Biotech	0.1%	0.2	USD	47.4	54.8	9	1%	Market price
Nicox	Biotech	1.4%	1.0	€	3.2	4.6	5	0%	Market price
Immunogen	Biotech	0.7%	0.5	USD	8.9	10.2	5	0%	Market price
Intercell	Biotech	0.8%	0.1	€	17.9	25.4	3	0%	Market price
Cosmo Pharmaceuticals	Biotech	0.2%	0.1	CHF	18.8	18.8	2	0%	Market price
Keryx Biopharmaceuticals	Biotech	1.1%	0.6	USD	5.1	5.9	4	0%	Market price
Deutsche bank convertible 2012	Biotech		3.5	CHF	0.6	0.6	2	0%	Market price
BB Biotech	Treasury shares	8.4%	2.2	€	42.1	59.8	130	9%	Market price
<b>TOTAL LISTED SHAREHOLDINGS (1)</b>							<b>1,512</b>	<b>102%</b>	
PROBIODRUG	Biotech						7	0%	Fair value as of Mar-10
Other assets / (liabilities)	Options, swaps & other						12	1%	Fair value as of Mar-10
<b>TOTAL UNLISTED SHAREHOLDINGS (2)</b>							<b>19</b>	<b>1%</b>	
<b>ATTRIBUTABLE NET CASH / (DEBT) + HLD SEVERANCE INDEMNITY (3)</b>							<b>-45</b>	<b>-3%</b>	<b>As of March-10</b>
<b>CAPITALISED HOLDING COSTS (4)</b>							<b>0</b>	<b>0%</b>	<b>Fees/costs included on a daily basis</b>
<b>TAXES / TAX CREDITS (5)</b>							<b>0</b>	<b>0%</b>	
<b>TOTAL (1+2+3+4+5)</b>							<b>1,487</b>	<b>100%</b>	
Nr. Shares (mn)							18.2		Net of shares to be cancelled
<b>NAV per share CHF</b>							<b>81.6</b>		
Current discount / (premium)							27%		
Exchange rate € / CHF							1.42		
<b>NAV per share €</b>							<b>57.4</b>		
Current discount / (premium)							27%		

\* Exchange rates applied € / CHF 1.51; CHF / USD 1.03; CHF / AUD 1.16  
Source: EQUITA SIM estimates & Bloomberg data

		BB BIOTECH NAV SENSITIVITY (€ PS)							
		ACTELION (CHF PS)							
		-15.0%	-10.0%	-5.0%	0.0%	5.0%	10.0%	15.0%	
CELGENE (CHF PS)	15.0%	70.1	57.3	57.8	58.4	58.9	59.5	60.1	60.6
	10.0%	67.1	56.8	57.3	57.9	58.4	59.0	59.5	60.1
	5.0%	64.0	56.2	56.8	57.4	57.9	58.5	59.0	59.6
	0.0%	61.0	55.7	56.3	56.8	57.4	58.0	58.5	59.1
	-5.0%	57.9	55.2	55.8	56.3	56.9	57.4	58.0	58.6
	-10.0%	54.9	54.7	55.3	55.8	56.4	56.9	57.5	58.0
	-15.0%	51.8	54.2	54.7	55.3	55.9	56.4	57.0	57.5
			35.6	37.7	39.8	41.9	44.0	46.1	48.2

		BB BIOTECH NAV SENSITIVITY (€ PS)							
		ACTELION (CHF PS)							
		-15.0%	-10.0%	-5.0%	0.0%	5.0%	10.0%	15.0%	
CELGENE (CHF PS)	15.0%	70.1	0%	1%	2%	3%	4%	5%	6%
	10.0%	67.1	-1%	0%	1%	2%	3%	4%	5%
	5.0%	64.0	-2%	-1%	0%	1%	2%	3%	4%
	0.0%	61.0	-3%	-2%	-1%	0%	1%	2%	3%
	-5.0%	57.9	-4%	-3%	-2%	-1%	0%	1%	2%
	-10.0%	54.9	-5%	-4%	-3%	-2%	-1%	0%	1%
	-15.0%	51.8	-6%	-5%	-4%	-3%	-2%	-1%	0%
			35.6	37.7	39.8	41.9	44.0	46.1	48.2

Source: EQUITA SIM estimates

## BRIEF OVERVIEW

**BB Biotech AG (BBB)** is an investment company investing globally in biotech companies with the aim of achieving an average annual return of 15%. BBB was founded in Switzerland in November 1993 and today is listed on the Swiss Stock Exchange, in the German TecDAX segment and in the Italian FTSE Italia STAR segment with **AUM of about CHF 1.5 bn.**

The **distinctive features** of their typical management style are:

- **A clear prevalence of listed assets** (not less than 90%), which assures visibility and high liquidity;
- **Approx. 20 to 30 holdings** o/w no more than 5 accounting for more than 10% of equity and the largest of which should not exceed 25%;
- **Cash reduced to the minimum indispensable** for management requirements (buybacks and dividends, and new investments for portfolio rotation etc.);
- **Limited gearing** (so far basically zero with a cap at 115% of AUM).

For investors focused on Europe, **BBB is one of the few alternatives offering the advantage of:**

- **Accessing the biotechnology sector worldwide;**
- Benefiting from **portfolio selection performed by a team with multi-disciplinary expertise and excellent track record;**
- Being able to **invest also in the US biotech companies.**

## STATEMENT OF RISKS

The primary elements that **could negatively impact the stock include:**

- typical biotech sector risks (pipeline failures, patent issues, regulatory setbacks, litigations ...)
- USD weakness due to translation effect
- growing discount to NAV due to raising risk aversion
- vicious circle generated by discount to NAV reducing stock's liquidity (due to "systematic" buy-back and "mandatory" dividend)

**INFORMATION PURSUANT TO ARTICLE 69 ET SEQ. OF CONSOB (Italian securities & exchange commission) REGULATION no. 11971/1999**

This publication has been prepared by Martino De Ambroggi on behalf of EQUITA SIM SpA (licensed to practice by CONSOB resolution no. 11761 of December 22nd 1998 and registered as no. 67 in the Italian central register of investment service companies and financial intermediaries)

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The prices of the financial instruments shown in the report are the reference prices posted on the day before publication of the same.

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**EXPECTED TOTAL RETURN FOR THE VARIOUS CATEGORIES OF RECOMMENDATION AND RISK PROFILE**

RECOMMENDATION/RATING	Low Risk	Medium Risk	High Risk
BUY	ETR >= 7.5%	ETR >= 10%	ETR >= 15%
HOLD	-5% <ETR< 7.5%	-5% <ETR< 10%	0% <ETR< 15%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

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**MOST RECENT CHANGES IN RECOMMENDATION AND/OR IN TARGET PRICE (OLD ONES IN BRACKETS):**

Date	Rec.	Target Price (€)	Risk	Comment
24 June 2009	BUY (n.r.)	58 (n.r.)	High	New coverage

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**EQUITY RATING DISPERSION AS MARCH 31 2010 (art. 69-quinquies c. 2 lett. B e c. 3 reg. Consob 11971/99)**

	COMPANIES COVERED	COMPANIES COVERED WITH BANKING RELATIONSHIP
BUY	52.6%	60.0%
HOLD	38.0%	30.0%
REDUCE	8.2%	6.7%
NOT RATED	1.2%	3.3%