

Media release as at October 23, 2020

Interim report of BB Biotech AG as at September 30, 2020

Biotech M&A picks up in the third quarter of 2020 – BB Biotech delivers a pleasing 9-month performance

The Nasdaq biotechnology index consolidated in the third quarter (-0.8%) following a very strong second quarter. BB Biotech displayed a similar pattern. After surging 31.1% in CHF in the second quarter, its stock corrected in the third quarter, closing 3.4% lower in CHF and 4.3% lower in EUR. Net Asset Value (NAV) declined by 10.9% in CHF, 12.1% in EUR and 8.3% in USD in the third quarter. The resulting quarterly net loss was CHF 395 mn, compared to a net loss of CHF 382 mn for the same period in 2019. From a short-term perspective, the long-term realignment towards small- and mid-cap portfolio companies had a negative effect on its most recent quarterly performance. Biotech companies have captured the attention of the general public and the broader investment community since the outbreak of the pandemic. The entire healthcare industry has been working all-out to address the pandemic with projects under way across the technology spectrum, from diagnostics and devices to therapeutics and vaccines. While the Investment Management Team welcomes the speed and innovation the sector has displayed in its quest for solutions and the expectations of the development of effective SARS-CoV2 vaccines, news flow in other areas of interest, for example in oncology, is expected in the coming months.

At the 9-month mark, BB Biotech's stock remains well in the green with the total share price return of 7.6% in CHF and 8.3% in EUR and a NAV total return of 3.0% in CHF, 3.7% in EUR and 8.3% in USD. The 9-month net profit of CHF 26 mn compares to CHF 172 mn for the same period in 2019. Following a very strong second quarter, the Nasdaq Biotechnology Index consolidated in the third quarter (-0.8%) but still shows a double-digit total return of 12.9% year-to-date. The broad healthcare market represented by the MSCI World Health Care Index gained 4.9% in the third quarter, bringing its year-to-date total return to 6.7%. Although M&A activity lifted individual stocks, the recalibration of overly high expectations for therapeutic modalities to treat SARS-CoV-2 dampened overall sector performance. Additionally, with mail-in voting for the US presidential election already under way, investors have begun to pull money out of the sector even though drug prices have attracted little attention from the election campaigns. Meanwhile, the IPO market continued to thrive, whereas small- and mid-cap biotechnology stocks that have long been listed struggled to perform.

New portfolio position

BB Biotech's investment team maintained its long-term investment strategy and focused on companies that are developing innovative medicines for severe and/or chronic diseases. It sold the remaining Akcea Therapeutics shares in the portfolio during the period under review and opened a position in Relay Therapeutics in the course of Relay's IPO, after which it immediately purchased more of the company's shares on the open market. Relay is a biopharmaceutical company aiming to bring protein motion to the center of drug discovery in order to create transformative medicines. Ongoing market fluctuations were used to realize profits in several mid cap stocks. BB Biotech generally does not invest in big pharma or pharmaceutical companies with major vaccine operations. Its reservations about investing in companies applying routine technologies at massive scale are based on the uncertainty about the long-term profitability of such investments. While they are likely to be successful, such companies do not represent breakthrough investment opportunities.

Milestones in Q3 2020

Further progress was made in developing prophylactic vaccines. Leading the field are Moderna and Pfizer/Biontech with their mRNA vaccines and AstraZeneca with its chimpanzee adenovirus-vectored vaccine. These companies are conducting extensive clinical studies to test the effectiveness of their vaccine candidates in reducing the risk of symptomatic infection among vaccinated participants versus the placebo control group. Intra-Cellular announced positive study results for Lumateperone as adjunctive therapy to lithium or valproate in the treatment of major depressive episodes associated with bipolar I or bipolar II disorder. In other news, Myovant disclosed further study results from its Phase III HERO study evaluating Relugolix in men with advanced prostate cancer. Incyte received FDA approval for Monjuvi (Tafasitamab-cxix) in combination with Revlimid for the treatment of adult patients with relapsed or refractory diffuse large B-cell lymphoma (DLBCL).

M&A activity and licensing agreements

The upturn in M&A activity seen in the third quarter continued into the fourth quarter when Bristol-Myers Squibb bid USD 13 bn for Myokardia. BB Biotech benefited from this news as Myokardia is one of its mid cap holdings. During the quarter under review Gilead bid USD 21 bn for Immunomedics, Sanofi offered USD 3.7 bn for Principia and Johnson & Johnson acquired Momenta for USD 6.5 bn. Unfortunately, none of these takeover targets were in BB Biotech's portfolio. The investment team did support Ionis in its decision to purchase all of the outstanding shares of its affiliate Akcea Therapeutics that it did not already own and fully integrate Akcea into the parent company. Radius outlicensed its SERD program to Menarini and is now focusing on its core expertise in osteoporosis treatments.

Outlook: better treatment options for acute infections expected

The shift in infrastructure and diagnostic improvements will not only impact the healthcare system today but will do so in the future. Clinical trial timelines will likely become shorter and clinical trial costs will probably decline. Fundraising activity will continue to be important factor. Launching products will require new models less dependent on large sales forces while applying novel strategies to drive awareness at patient and physician level. Investments in diagnostic testing could ultimately lead to broader adaption even at genetic level, driving adoption in targeted medicines from rare genetic disorders to patient-tailored oncology drugs.

Several portfolio companies will report key clinical trial results before the end of year:

- Moderna is expected to report initial efficacy data from the COVE study testing mRNA-1273, in which approximately 30 000 healthy volunteers will receive two doses of the vaccine candidate, 4 weeks apart. According to Moderna, its vaccine could be widely distributed during Q1 2021 if full approval is given.
- Scholar Rock is expected to publish interim Phase II data from its TOPAZ study testing SRK-015 in patients with spinal muscular atrophy.
- Both Arvinas and Molecular Templates are expected to disclose important early dose and efficacy data at the San Antonio Breast Cancer Symposium.

Three drugs under regulatory review are expected to receive formal feedback prior to year-end: Relugolix from Myovant for the treatment of advanced prostate cancer; Lumasiran from Alnylam for the treatment of primary hyperoxaluria type 1; and Margetuximab from MacroGenics for the treatment of HER2-positive metastatic breast cancer.

The Investment Management Team is actively monitoring the pandemic, the resulting healthcare and economic policy responses, and the many clinical trials currently under way. Based on its observations and findings to date, the team is confident that vaccine development programs and other action being taken to contain and overcome this challenging pathogen will ultimately be successful. Until that point is reached, it expects more effective therapeutics for active infections that ease the disease burden and reduce mortality rates will be developed.

The interim report as at September 30, 2020 can be downloaded at www.bbbiotech.com.

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Company profile

BB Biotech AG is an investment company domiciled in Schaffhausen/Switzerland and listed on the stock exchanges in Switzerland, Germany and Italy. Since 1993, the company has invested in innovative drug development companies that are mainly located in the US and Western Europe. BB Biotech is one of the leading investors in this sector. BB Biotech builds on the long-standing experience of its distinguished Board of Directors and on the fundamental analysis of the experienced Investment Management Team of Bellevue Asset Management AG when making its investment decisions.

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 at September 30, 2020

(in % of securities, rounded values)

Ionis Pharmaceuticals	10.3%
Neurocrine Biosciences	7.7%
Incyte	6.9%
Argenx SE	6.5%
Vertex Pharmaceuticals	6.5%
Moderna	6.1%
Anylam Pharmaceuticals	4.6%
Myokardia	4.0%
Alexion Pharmaceuticals	3.9%
Agios Pharmaceuticals	3.8%
Halozyme Therapeutics	3.8%
Esperion Therapeutics	3.7%
Macrogenics	3.1%
Sage Therapeutics	2.5%
Intra-Cellular Therapies	2.4%
Fate Therapeutics	2.3%
Radius Health	2.2%
Crispr Therapeutics	2.1%
Myovant Sciences	1.9%
Exelixis	1.8%
Generation Bio Co.	1.5%
Relay Therapeutics	1.5%
Molecular Templates	1.4%
Scholar Rock Holding	1.3%
Nektar Therapeutics	1.2%
Black Diamond Therapeutics	1.1%
Arvinas	1.0%
Sangamo Therapeutics	1.0%
Intercept Pharmaceuticals	0.8%
Voyager Therapeutics	0.8%
Wave Life Sciences	0.6%
Kezar Life Sciences	0.6%
Homology Medicines	0.5%
G1 Therapeutics	0.2%
Cidara Therapeutics	0.2%
Alder Biopharmaceuticals – CVR	0.1%
Bristol-Myers Squibb – CVR	<0.1%
Total securities	CHF 3 465.5 mn
Other assets	CHF 15.0 mn
Other payables	CHF (249.4) mn
Net Asset Value	CHF 3 231.1 mn