

Sachs Bloomberg 5th Annual Biotech in Europe Investor Forum

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Investing in Biotechnology: A Change in Climate?

**Dr. Peter Reinisch, Partner
Global Life Science Ventures**

Key message from last year's conference:

Biotechnology represents a long-lasting business opportunity

Unmet Medical Needs

- Health is the most fundamental of human needs
- Healthcare is largely resistant to market forces
- There are a huge number of unmet medical needs
 - e.g. cancer, cardiovascular, auto-immune, infectious (e.g. AIDS, malaria, tuberculosis, hepatitis, bird flu, SARS), Alzheimer's, obesity, depression, ...
- Of ~30'000 known human diseases, only 1/3 can be treated
- New infectious agents continue to emerge regularly
- With aging populations, the needs are increasing

Key message from last year's conference:

Biotechnology represents a long-lasting business opportunity

Pharma Under Pressure

- Loss of patent protection and sales
- Economic pressures
- Diminishing R&D productivity
- Reduced pipeline of new active substances

Key message from last year's conference:

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Potential of Biotechnology

- 4 out of 5 therapies in development are biotech-based*
- Proven ability to generate treatments for devastating diseases, such as AIDS
- Innovative character
- High R&D productivity
- >190 biotech drugs and vaccines currently available[#]
- >400 biotech products in clinical trials*
- Biotech had twice as many NMEs approved by the FDA in 2004 as big pharma*

Key message from last year's conference:

Biotechnology represents a long-lasting business opportunity

Track Record in Generating Real Value

- \$55 billion in worldwide sales in 2004*
- Potential to generate blockbusters, e.g. EPO
- Currently growing at ca. 17% per year*
- Biotechnology sector predicted to reach overall profitability in US by 2008
- Leading biotech companies have started to rival pharma in market capitalisation

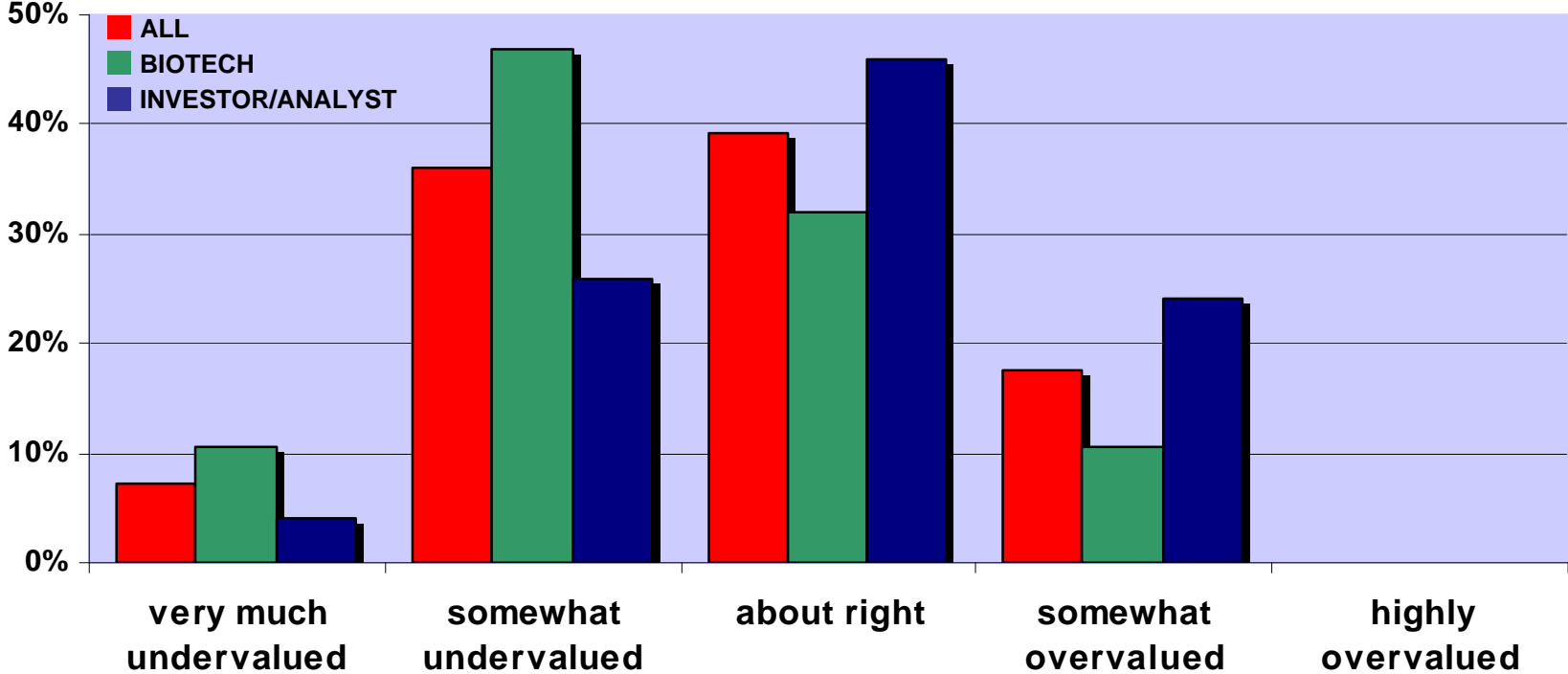
From a long-term perspective, it is clear that the biotech sector is growing and holds great potential for investors.

But: do we have grounds for confidence today?

GLSV BIOTECH INVESTMENT BAROMETER

- **Survey sent out on 19 September to several hundred investors, analysts and executives from the biotech industry**
- **Objective: assess current climate regarding investment in biotechnology**
- **8 multiple choice questions + 2 open questions**
- **98 replies received in time to be considered**
 - **50% from biotech industry**
 - **10% analysts**
 - **40% investors**

What is your opinion about current biotech market valuations?

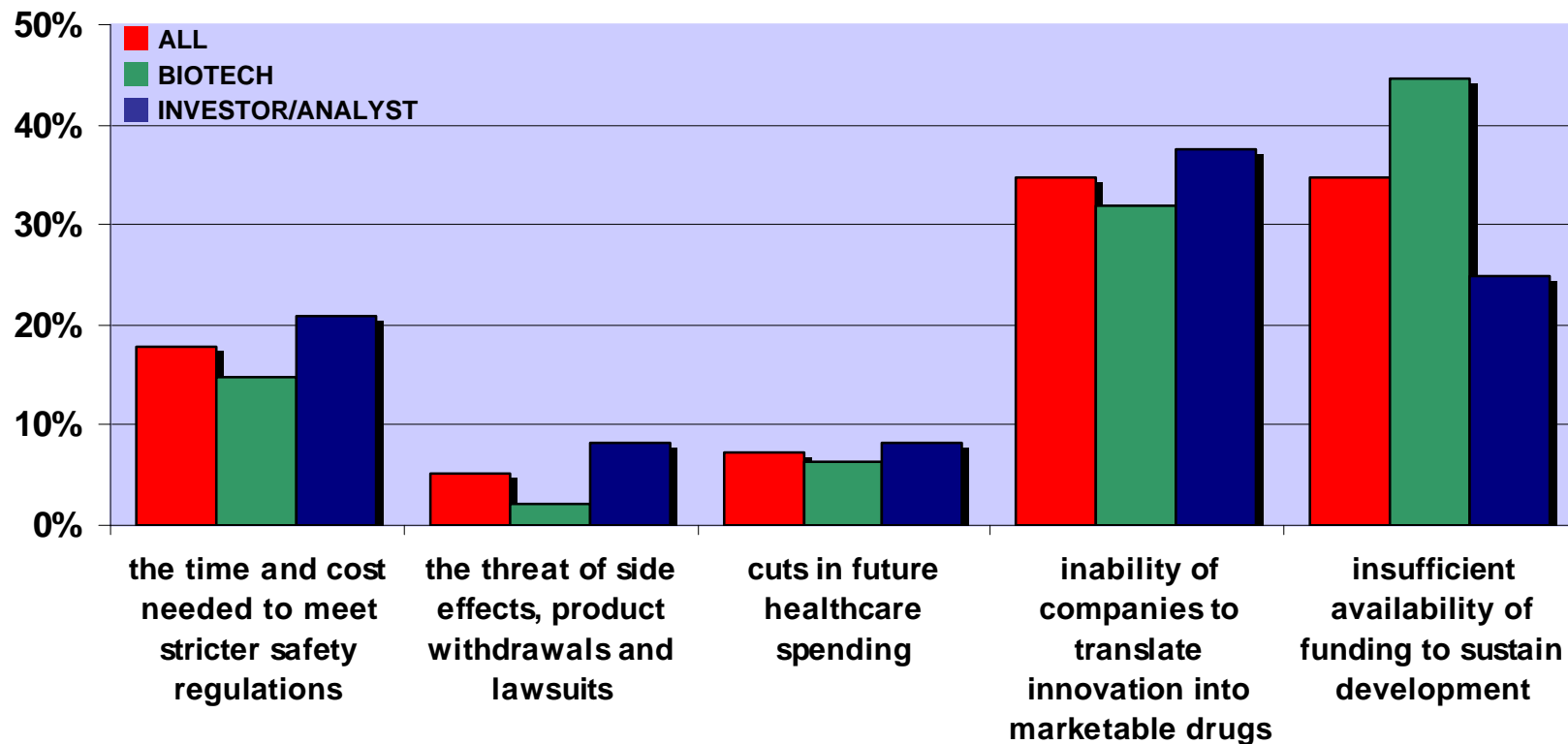


On average, investors/analysts find valuations about right, with a slight tendency towards undervaluation. 57% of biotech respondents see the market as undervalued.

Comments received from survey respondents highlight the following needs:

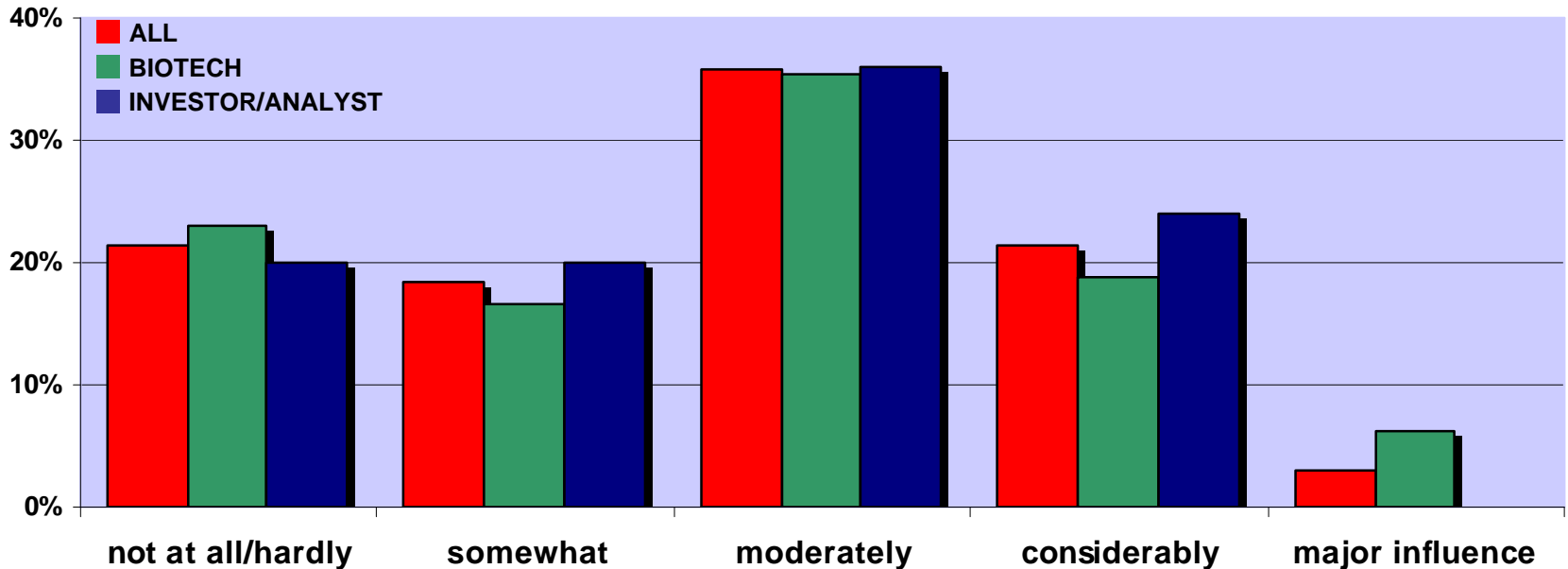
- **Validated proof-of-principle for drug candidates**
- **Solid business model**
- **Product focus**
- **Experienced management with product development expertise**

What do you consider the greatest threat to the biotechnology sector?



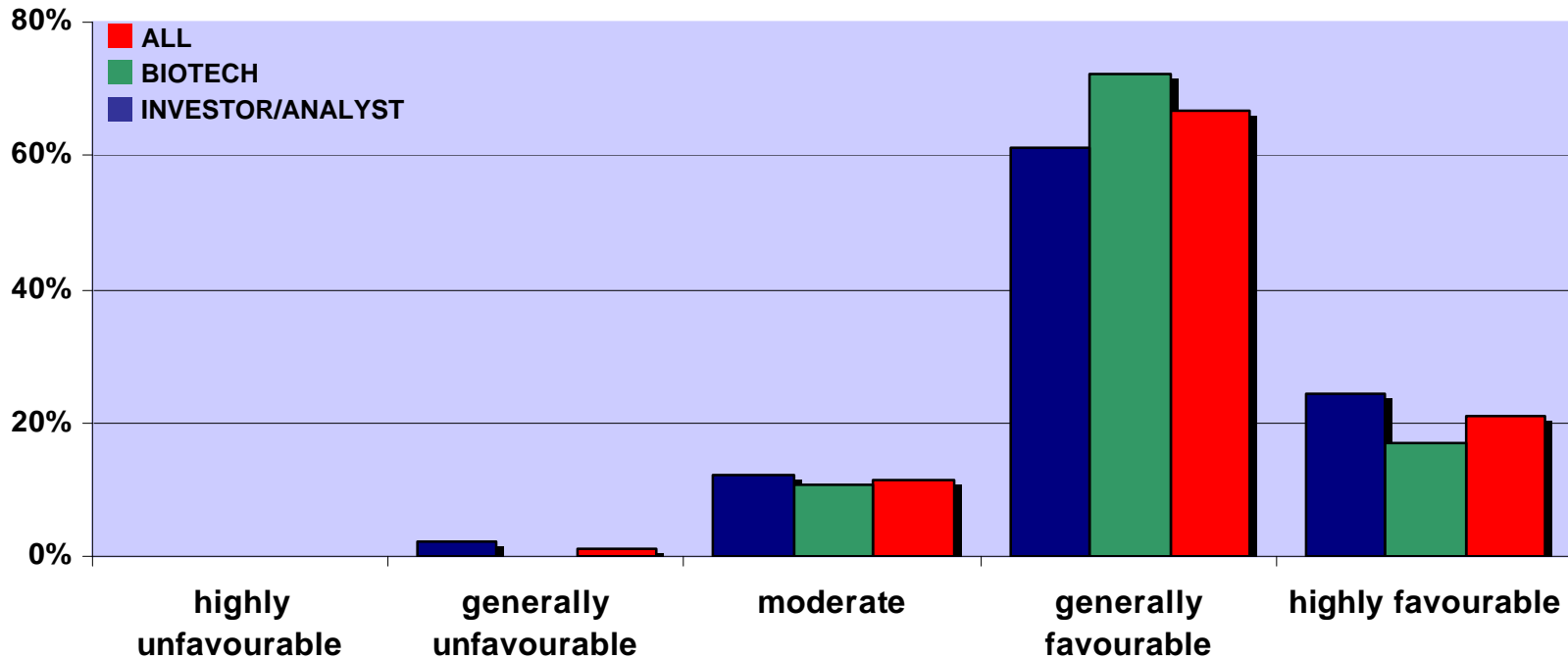
Corporate development issues are of higher priority than external issues such as safety regulations and healthcare spending.

How much have recent product safety-related issues influenced your perspectives on the biotechnology sector?



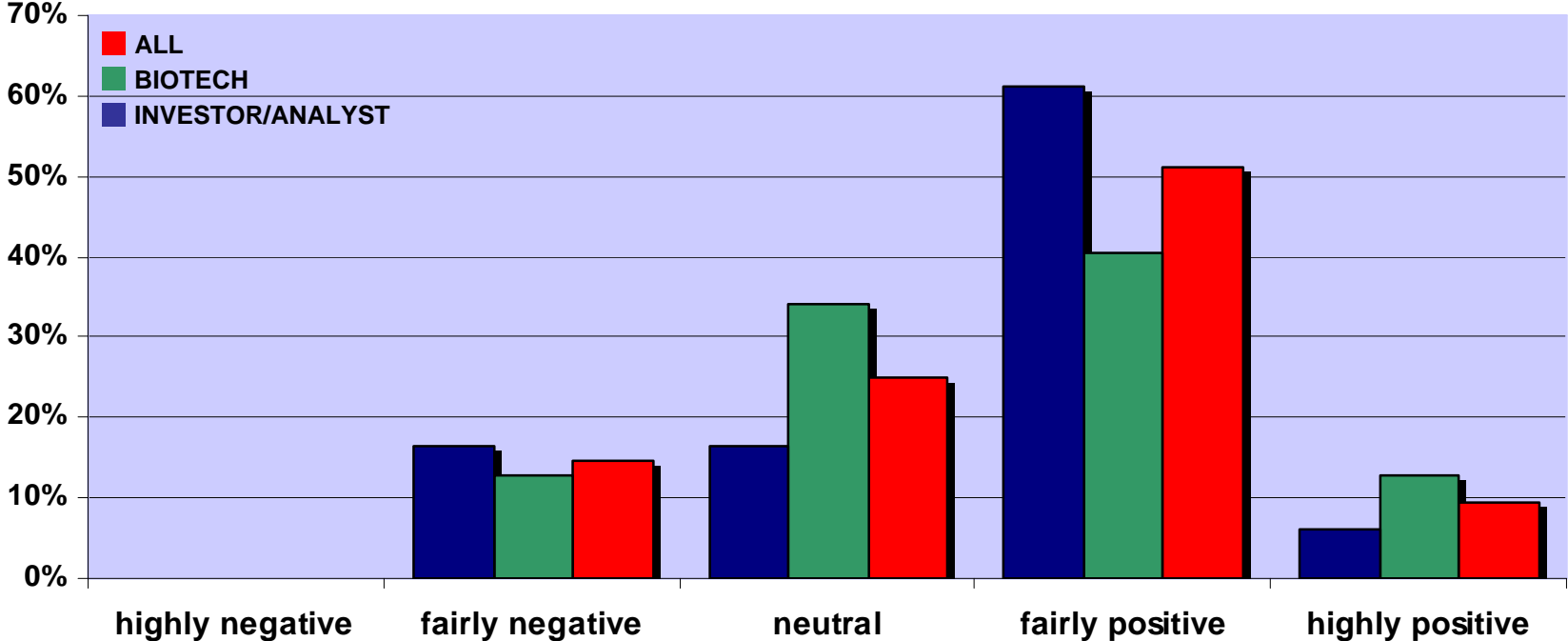
Safety-related issues remain a non-negligible though not overriding concern.

What, in your opinion, are the long-term perspectives for investment in the biotechnology sector?



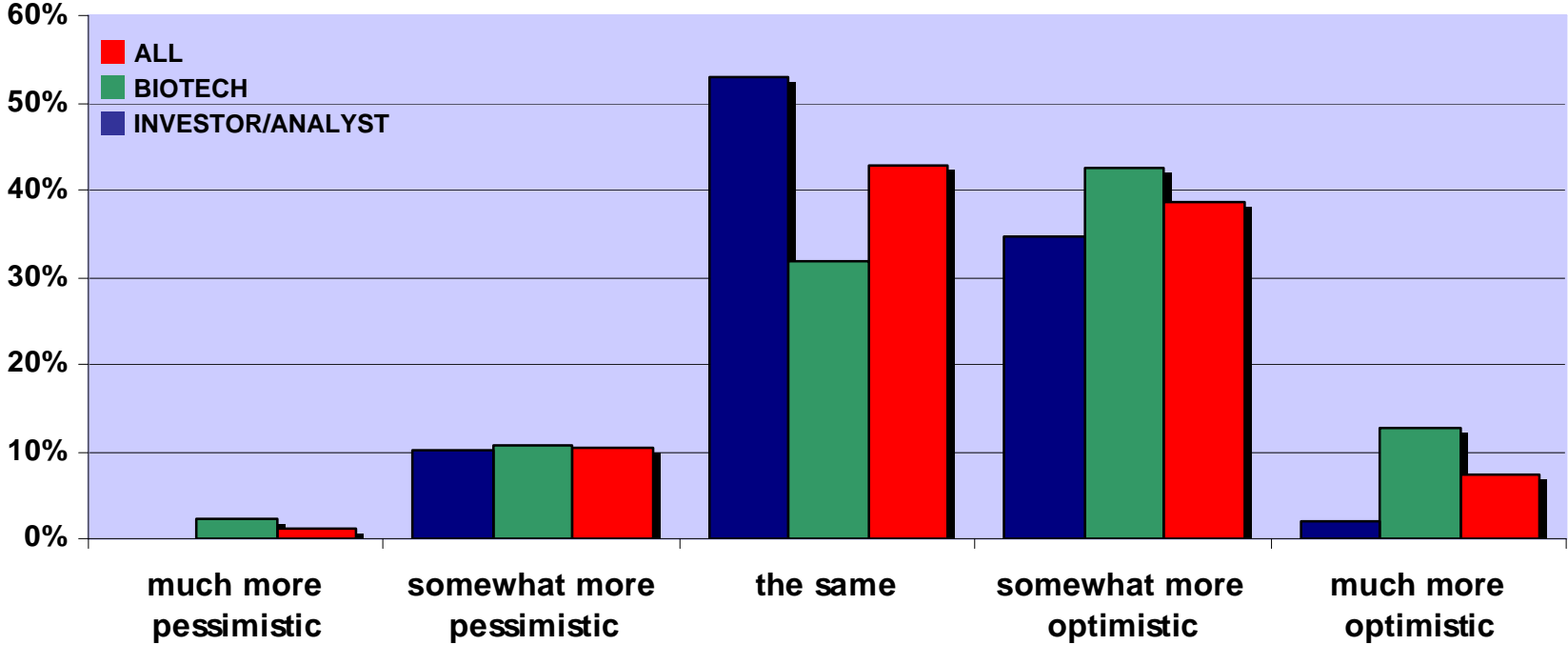
87% of respondents find the long-term perspectives generally or highly favourable.

How do you see the future for the biotechnology sector in Europe?



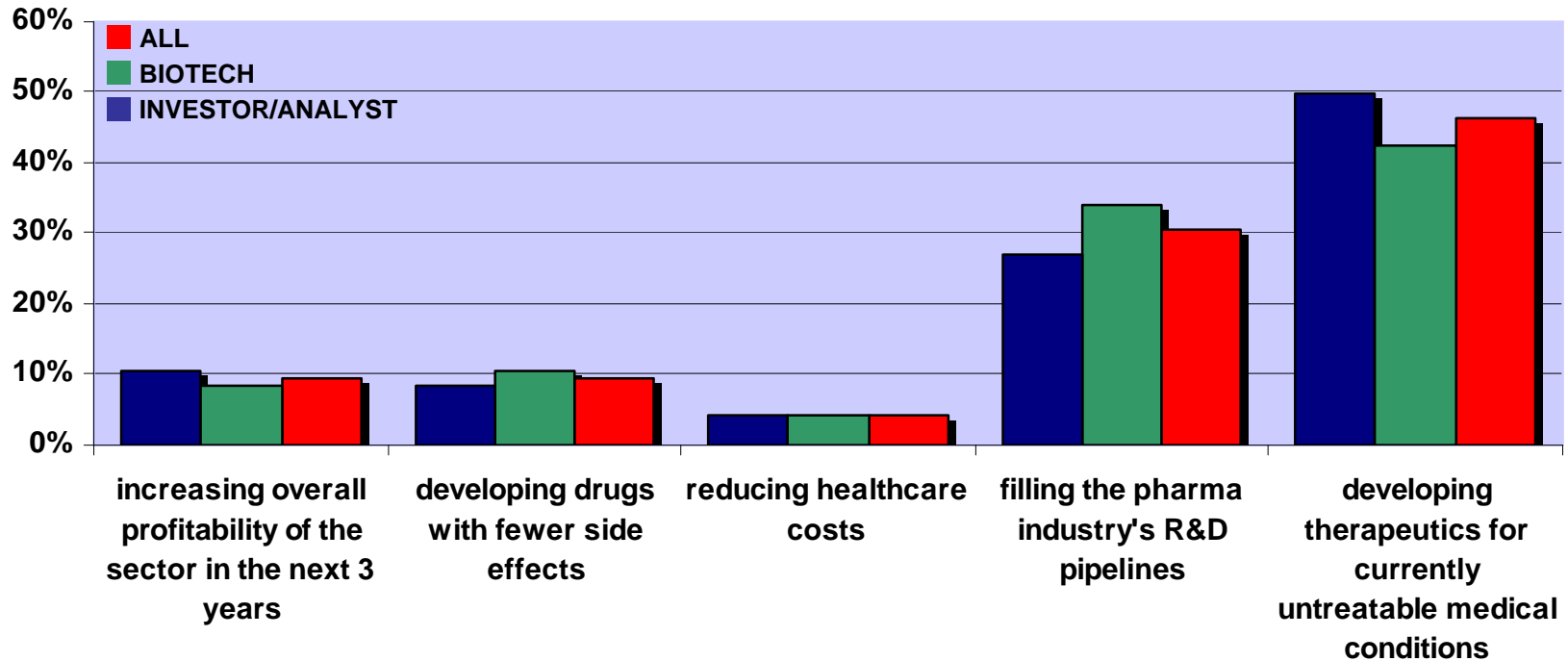
The outlook is generally positive on biotechnology in Europe, especially among investors/analysts.

How does your view today about the biotech sector compare with your view 12 months ago?



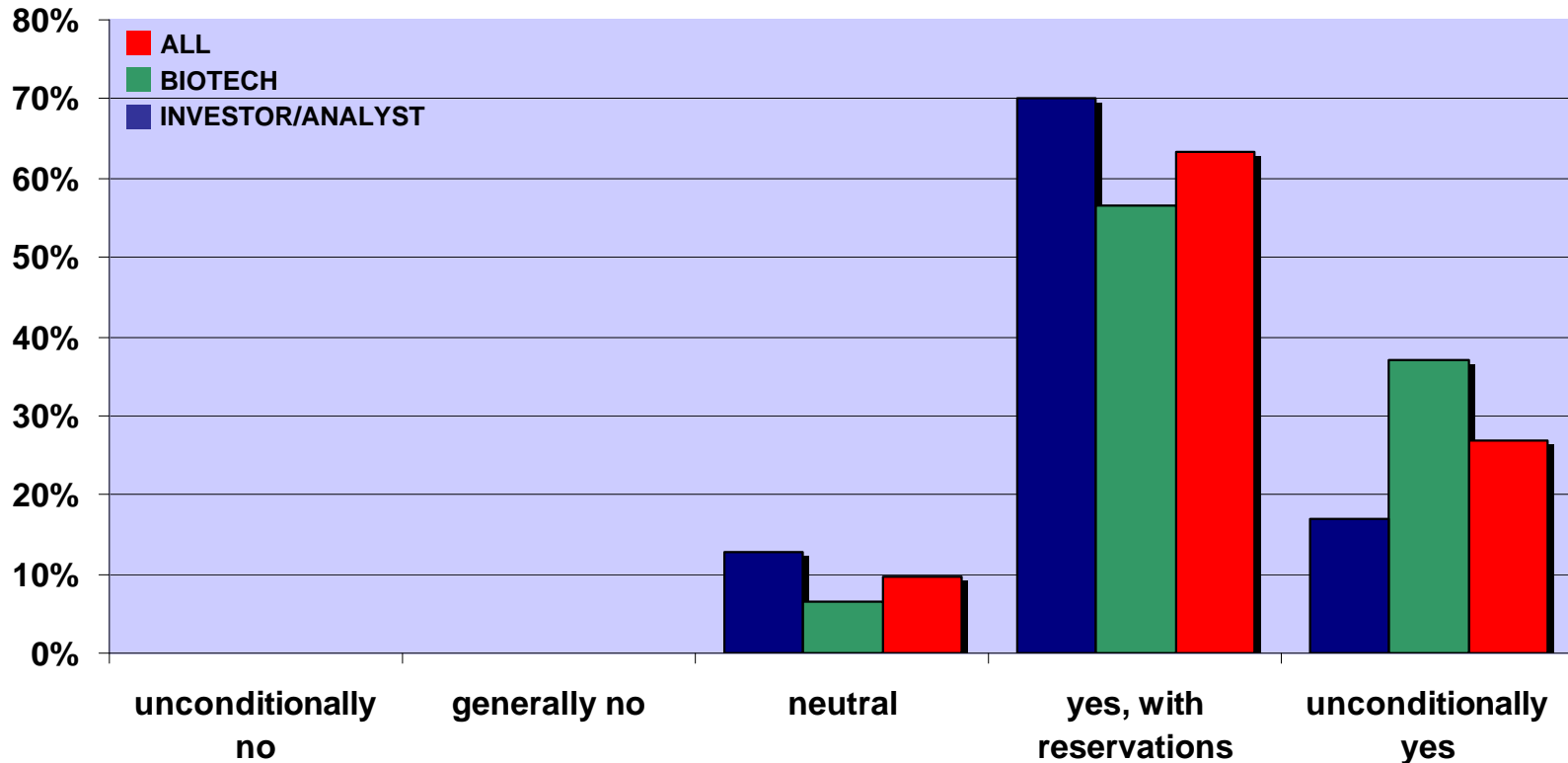
On average the trend is positive, as 46% of respondents are more optimistic than they were 12 months ago. Optimism is somewhat higher within biotech companies.

What do you consider the greatest value drivers of the biotechnology sector?



3 out of 4 respondents consider meeting unmet medical needs and filling pharma's R&D pipeline to be the greatest value drivers.

Are you recommending investments in biotechnology?

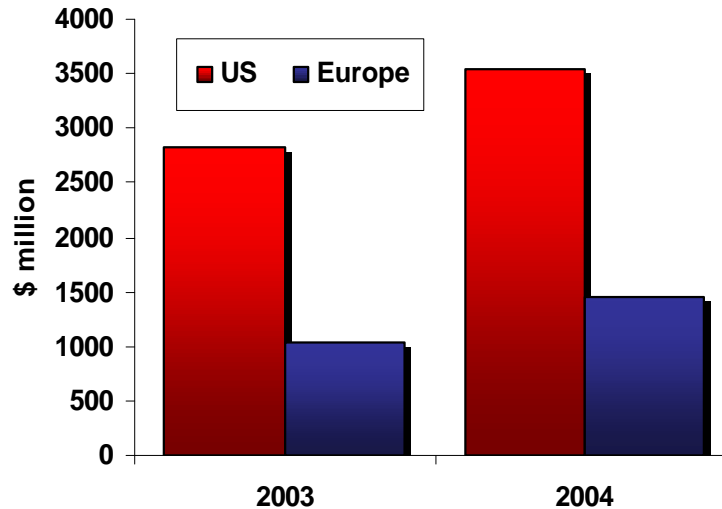


87% of investors/analysts recommend investments in biotechnology!

The survey reveals a generally optimistic outlook for biotechnology companies and investors in the sector.

There are recent signs of stabilisation in the industry that support this outlook.

Amount of venture capital funding



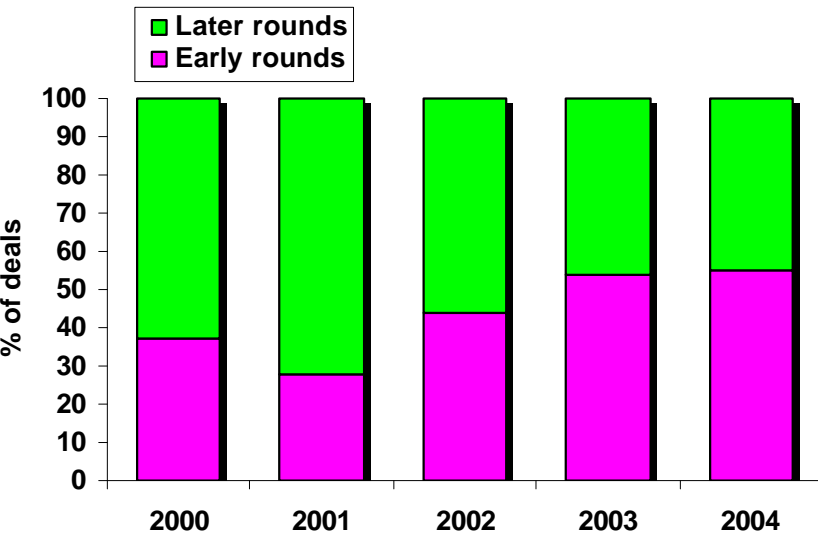
There has been an increase in the amount of funding made available.

“The investment required to ensure that a company reaches maturity is increasing, therefore I predict that fewer companies will get funded but those that do will have access to greater funds.”

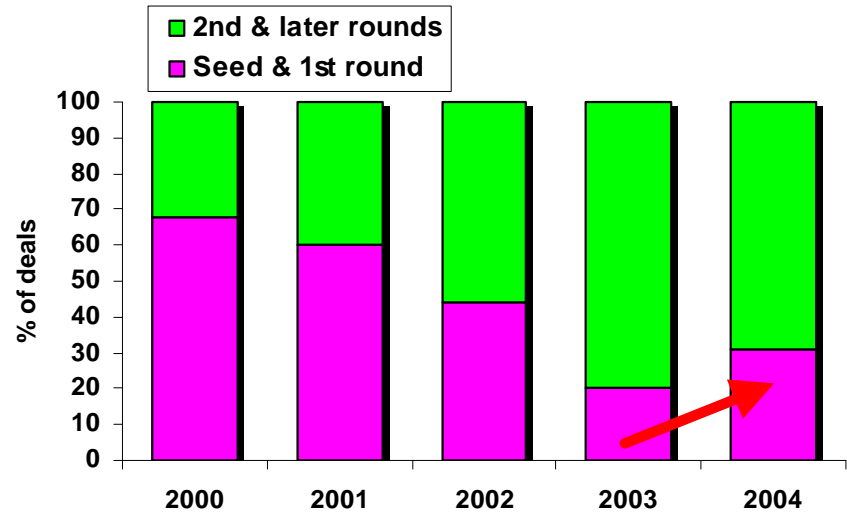
–Survey respondent (Biotech company)

Distribution of venture capital funding

Deal distribution in the US



Deal distribution in Europe

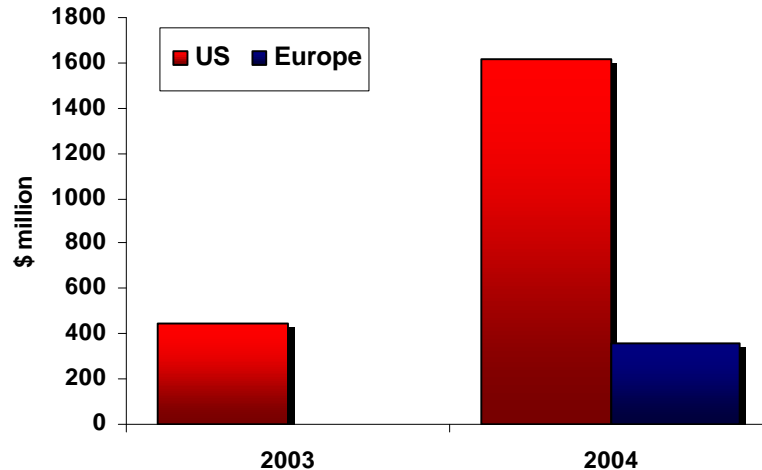


Early round financing in Europe is well below the level of a few years ago. However, 2004 showed a reversal of previous trends.

“It is important to have a good balance between profitable companies and promising early-stage companies for above average returns.”

–Survey respondent (Analyst)

IPOs as exit opportunities



There has been a reversal of the previous downward trend.

Recent examples from the GLSV portfolio:

- Memory in April 2004, raising \$35 million
- Intercell in February 2005, raising €47 million
- Coley in August 2005, raising \$96 million

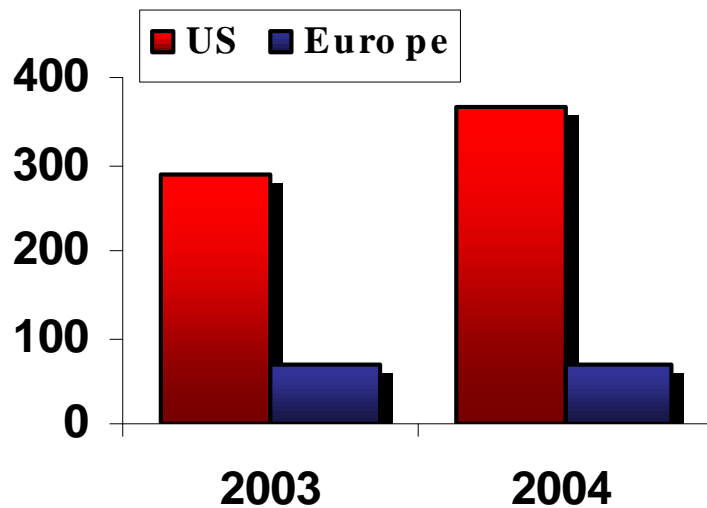
Trade sales as exit opportunities



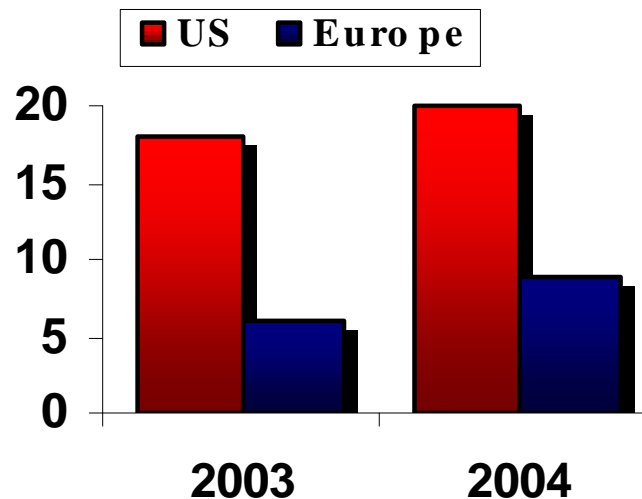
- **July 2005: GlycArt, an early-stage company, sold to Roche for CHF 235 million**
- **Attractiveness of GlycArt:**
 - **Demonstrated therapeutic efficacy (pre-clinical)**
 - **Industrial-scale applicability of the technology**
 - **Extensive proof-of-principle**
- **Acquisition by big pharma can represent a profitable exit opportunity for even early-stage companies with demonstrated innovative technology and strong development potential.**

More biotech drugs are reaching the market

Products in phase III

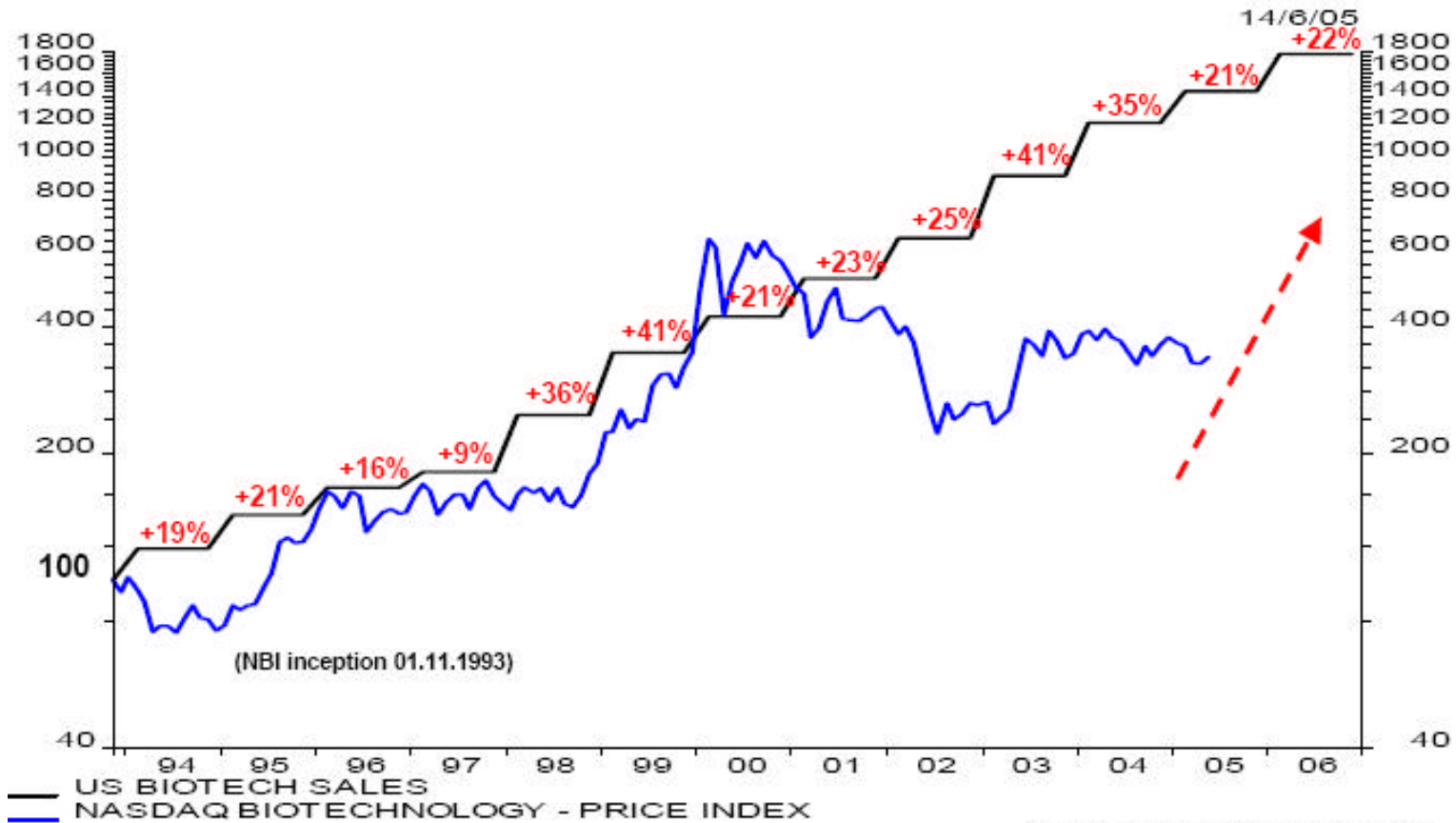


New product launches



The US remains well ahead of Europe.

Evidence for Undervaluation



Source: DATASTREAM

Conclusions

- The GLSV Investment Barometer reveals that the overall outlook for biotechnology is positive; this view is substantiated by recent evidence.
- A few major successful product launches should further increase confidence.
- Two major challenges remain:
 - a. funding
 - b. translating innovation into products
- Opportunities exist for wise investors to make profitable returns.

Now is a particularly good time for selective investments, with encouraging prospects for early-stage companies.