

Crucell at UBS Global Live Sciences Conference

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Martin Wales: Okay. Good morning and welcome to UBS Global Life Science Conference. I'm Martin Wales, responsible for non-pharma health care (inaudible) research in Europe. It is my pleasure to introduce Crucell today. Presenting for the company is the CEO, Ronald Brus. Immediately following the presentation, there will be a break-out session, which is, I think, in the Julliard) conference room, and we'll see you -- so it would be helpful if you could hold your questions until then.

Ronald?

Ronald Brus: Thank you so much, Martin.

Ladies and gentlemen, good morning. My name is Ronald Brus. I'm CEO of Crucell. And what I would like to share with you today is the prospects of the company, what the company's all about and, for those who are not so familiar with the field, I will also tell you about (inaudible) in the field.

I will start with a slide. It's pretty familiar to you -- a disclaimer slide. And I dive then immediately into the history of our company. Crucell was established in 2000, and in 2006, it did kind of a bold move. As a very small company with only 200 people, we acquired a company in Switzerland with 1,000 people. It was a company called Berna. It was a 100-year-old company that was producing and manufacturing, developing and selling vaccines all over the world.

In the same year -- 2006 -- we also acquired a 95-year-old company in Sweden called SBL, which was an old state-owned company also producing vaccines and serum products.

At this moment in time, our facilities in Leiden in the Netherlands are the smallest. We produce in Switzerland in Bern and in Seoul in Korea, and we do most of the sterile filling and finishing in our facility in Spain in Madrid. We have still a large facility in Sweden in Stockholm, and our research and development efforts are being done in the Netherlands.

We sell around -- over 100 million doses of vaccines worldwide. We have, therefore, a global distribution. However, we only have sales forces in just 8 countries, and that is basically a phenomena that we inherited from Berna and SBL. They had only sales forces in some European countries. And interesting to note is that in the remaining countries in the world, we're working with distributors. Most of the distributors have a 3 to 4-year contract with us and are all up for renewal in the coming 2 years.

Now why do I say that? Because it's important to note that in the countries where we have our own sales forces, we have a market share of around 20%. In the countries where our distributors sell for us, we have a market share of about 1% to 2%. So it's struck us that we could sell our own products much better

than our distributors. So what we will do is we start small sales forces all over the world under the Crucell flag. Now I think it's good for you to note that selling vaccines does not require massive sales forces. In countries like the Netherlands, we have only 1 or 2 salespeople; in countries like Italy, only 8 to 9. So with just relatively small sales forces, you can achieve very good market shares.

Our market capitalization to date is around 1.1 billion euros, and we have a 6% share of a company that's called Galapagos that's been listed in Belgium. We started that company together with a Johnson & Johnson affiliate called Tibotec, and it was first a joint venture between Crucell and Johnson & Johnson. Later on, we diluted our shares because the company went public and the company is in very good shape.

We also have a 12% stake in a company called AdImmune in Taiwan, and that is because we see Taiwan as a very important growth market, but also, very importantly, for the production of antigen for our vaccines. We hope that, just in a matter of 2 years, we can source an additional 15 to 20 million doses out of Taiwan.

What I will discuss with you, basically, is everything that we do with respect to research and development, with respect to our pipeline, with respect to our products. But I'll start with the financials, because as a small biotech, it's important to get your financials in good shape.

And you see that year-on-year growth has been quite significant over the last 3 to 5 years. And also, I think it's important to note that we're very much keen to drive the company in a profitability mode. You see the year 2006 was a year where we had relatively big losses due to the fact that we acquired big companies, but then we get a better grip on the situation. We were capable of capturing the synergies and we're also -- to be quite honest, vaccines are in quite great demand as we speak. And over the last couple of years, that demand has been grown quite significantly.

With respect to our margins, I'd like to point out that we still post relatively low gross margins on our products as a company. We were able to grow those gross margins over the last 3 years from 29% to in the higher 40's. Still, we're not at par with our industry peers. There is no reason to believe that our company would not be able to get the margins up to in the high 50's just in a matter of years.

With respect to our cash position, you see that we have a good position. We're always, I would say, a bit stingy on cash. We always want to have good amounts of cash in the bank since our business is quite cyclic.

If you look at the trends that you've seen over the last 5 years and you now compare that what happened in 2009, you see that the trend is still continuing. In the first half-year of this year compared with 2008, we posted nice growth with respect to revenues, but all other parameters that you can measure the company by look quite good, and we feel now that we have a pretty good grip of what we're doing, also financially.

Now our business is still a bit seasonal, right? I don't need to explain to you that in the beginning of the year, there is no flu, but you have to produce flu shots, and in the end of the year, you don't need to produce flu shots but you just need to sell flu shots. And therefore, you see that the second half of the year is typically much stronger than the first half of the year, also taking into consideration that the margins in the second half of the year are always much stronger than in the first half of the year.

Let's get back to our mission, ladies and gentlemen. Our mission is to combat infectious diseases. And to combat infectious diseases, we employ basically two tools. One is vaccines -- a very old tool -- but with modern technologies, you can think about more and more infectious diseases that you could potentially treat or prevent with vaccines. The second important tool that we employ are monoclonal antibodies. Monoclonal antibodies are the defense mechanism of the human body, or antibodies are the defense mechanism of the human body. And the last 15 years, they have not been employed or not been developed for a lot of infectious diseases because the price to make them is quite a stumbling block. Just 10 years ago, one gram of monoclonal antibody -- to produce that in a facility would cost you around \$1,000. With our modern technologies and our proprietary technologies, we feel that we can now make a gram for less than \$50, and we feel that the future will be that a gram will cost ultimately about \$25, \$35.

Now that opens a lot of avenues because monoclonal antibodies -- especially if you mix them in a mix of two different antibodies -- are a very strong tool to combat, to prevent, but also to treat, infectious diseases.

Today, Crucell consists out of three distinct pillars. First of all, we have our products that we sell in 80 countries, and they give us stable and predictable sales and cash flow. We have a quite broad pipeline of novel products that we're very excited about for novel targets, and those exist out of vaccines -- for example, for malaria, for tuberculosis -- but also antibodies for rabies and influenza and hepatitis C. And then we have a platform that we offer to the pharmaceutical industry to use in return for annual payments and royalties on sales. Today, in that platform, we have around 80 -- 8-0 -- partners, and none of them has reached the market yet, but they're all royalty-bearing once they reach the markets. And the first submission for a product that's being produced on the platform that we offer has been submitted now to the EMEA, and we have reasonable hopes that that will make it through. However, for us, it's a numbers game. The more companies, the more products are produced, (inaudible) PER.C6 (inaudible) and our other technologies, the higher the chances that we will get royalties out of these.

Our patents will be there, and I would say there's about 750 patents covering the technology that we offer, and they will be around for 2022, 2025.

Today, Crucell is in the position that, within just 8 years of its existence, it's the largest independent vaccine player. It's well behind the top 5 though, but then again, we're still making over 100 million doses. We're selling now in 80 countries. And we have 200 years of cumulative experience of producing and developing vaccines. We have a seat on the Global Alliance of Vaccine Initiatives -- the GAVI Board -- and we steer a bit, with the other folks, where the

research of vaccines and where the attention of vaccines is going. Top of that, we posted very strong sales growth.

Our company is putting around 80 million euros into research and development. We believe that that should be kind of a fixed amount and shouldn't be a kind of a reflection of sales. It is our conviction -- we're convinced that if you put more than 80 million or even 120 million in it that you don't get necessarily better results. We see that our research development needs to be lean and needs to be relatively small, with dedicated small teams in order to get the maximum results out of it.

Now what do we have in our pipeline? First of all, you see in blue all the products that we have currently in the market. Now some of those products, like a product Epaxal for -- sorry, for hepatitis A -- we have in about 40 countries in the world marketed. We're doing excellently well in our competition with Glaxo Smith Kline's Havrix. But we still not introduced that product in the United States, and as you might know, the United States is by far the biggest hepatitis A market in the world. It's even better. If you compare the sales that we think we could generate in the United States, it's more than all the other countries where we're selling it today combined.

In the green, you see what we have in the pipeline, and we just filed -- just a couple of months ago -- a new vaccines against yellow fever. You see others there, and we're extremely excited about the prospects of those.

In red, you see something that becomes available now to us, and that is antibodies for infectious diseases. Some of them have been partnered with Sanofi Pasteur, like rabies, but some them were not -- are not partnered as of yet, and we see huge prospects for those. And especially influenza, but also hepatitis C is very close to our heart.

Now let me give you a snapshot of the main marketed vaccines where we believe they're still offering an excellent scope for growth. First of all, it's a product -- it's a pentavalent vaccine that we call Quinvaxem that has been introduced to the market in 2006 -- by the end of 2006. We have a product against hepatitis A; it's called Efaxal Junior. And we have products against hepatitis B and measles and rubella. It's a good portfolio of products, and we have a really consistent way of selling those to organizations like Pan-American Health Organization and a organization like UNICEF.

In the second category, you see products that we see as typical travel products, and yes, indeed, with this economic downturn, we see pressure on that category of products. The first -- the second quarter of this year, we posted a double-digit growth still in that category, but we just see travel going down around the planet quite significantly.

However, we feel by tapping into new markets and the fact that our products have unique capabilities, we can still sell a lot on this travel arena, and once the economic downturn is over and people start to travel again, we think there will be a nice (inaudible) of people who will take travel vaccines again.

Thirdly, we're in the respiratory area -- influenza, well-known to you. And we do not sell in the United States and we have a vaccine that's quite unique because it's a vaccine that's making use of a new technology called virosomes. Virosomes are, in essence, empty influenza -- particles that cannot divide anymore, but it gives you the natural presentation of the influenza virus. So basically what we do -- we also employ this technology for hepatitis A -- we attach the antigens to such an empty influenza -- a virus. We inject it in the deltoid muscle of the human being, and there, it solicits a very specific immune response against viruses, rather than what most companies do with (inaudible) -- creating an aspecific immune response that is so aspecific that it's (inaudible) almost everything that you inject. Also, the impurities.

Just give you a snapshot on our Pentavalent vaccine. We have 2 salespeople that got contracts now for the last 4 years for around \$800 million. We exclusively sell to 2 organizations called Pan-American Health and UNICEF. Now, UNICEF has a tender process that goes in (inaudible) 3 years, and I'm going to explain a bit to you how that works. During the millennium term, the United Nations came together and set out goals for global health, and one of the major goals is the Millenium Goal #4 -- is to reduce child mortality all over the globe, and especially in the poorest of the poor countries. Now in order to do so, vaccination was a very important one, and our vaccine was key. Now what you see in the first period -- in 2007-2009 -- we won around \$500 million of tenders. Now what does that mean? Basically, UNICEF tells us that they think that the market for these vaccines will about -- this big? UNICEF is doing the procurement and UNICEF is also doing the dissemination throughout the countries.

In the first tender for the period 2010-2012, we wanted \$300 million -- so it was a bigger tender -- and we expect that that was only half of what UNICEF have --. Why was it only half? Because the market's demand for Pentavalent vaccines in the world is growing extremely significantly. Now we do have (inaudible) competition. We have competition from 2 companies called Panacea and Shanta Biotech, and Shanta Biotech has just been acquired a month ago by Sanofi Pasteur. However, we did work with Shanta Biotech in the past, and we have quite interesting arrangements with them.

Then I'll bring you to Epaxal. Epaxal is a hepatitis A vaccine and is not using aluminum as an adjuvant. It's the only non-aluminum hepatitis A vaccine in the world. Why is that important? Well, aluminum is an irritating (inaudible) that's being injected with the antigen to solicit a specific immune response. That means it created a kind of tenderness, redness, pain -- all the aspecific inflammatory things that you expect from something that's irritating. Now aluminum needs to be dissolved in the prep. That means you need twice the fluid. And thirdly, very importantly, aluminum has not a very good name among a lot of parents in the world. You see, a lot of parents do not want to inject their children with aluminum-containing vaccines anymore. We have the only non-aluminum vaccine for hepatitis A because we're making use of this virosomal technology -- this empty influenza technology. We're selling this now in about 42 countries, and we're preparing a United States strategy. We don't have it approved to the United States, and the market is as such it should be a market of more than 150 million for such a produce like Epaxal.

Now what do we need to do in order to get there? We need to do a clinical trial on U.S. soil. That's one thing. And we need to make sure that facilities in Switzerland can cope with the capacity that we expect. We have set out an entire strategy to get there. The first boxes have been ticked. The first pilot plan is ready and we're looking forward to a clinical study. But we're not particularly afraid of the outcome of that clinical study because this is a product that's been around for a while, and in every country where we compete with Glaxo or Merck or Sanofi, it posts extremely good results. So clinically, we're not afraid, but we still need to invest in such a program.

Now I'll bring you to some of the pipeline highlights of the company, and apart from rabies and tuberculosis in which we have done several Phase II studies with excellent results, I want to focus your attention to something that's called influenza. While the entire world is treating influenza with either Tamiflu or Relenza, or trying to make as quickly as possible vaccines -- you know it's always going to be a rat race because you do not know exactly whether or not the virus or the strain is mutating. We found antibodies. We published those in science that prove that it didn't matter whether or not the strains were mutating. You could treat and you can prevent influenza with those. Very powerful tools, especially when you combine it with our technology to make it very cheaply and at a very great scale.

Bringing you to our technology that allows that, that the human cell that makes about 30 grams per liter bioreactive volume, and our facilities at this moment in time are what we call (inaudible) disposable facilities. (Inaudible), the bioreactors have shrunk in size so much that we no longer work with 20,000-liter scale bioreactors and stainless steel bioreactors, but we work with (inaudible) 250-1,000-liter disposable bioreactors. Also, the entire upstream is disposable now and will be done in very small clean rooms -- clean rooms that you can -- basically, as a train, drive in and drive out. That drives the cost down in a tremendous fashion. Now there's 80 companies that are working with our technologies. This morning, there was a lecture of (inaudible). They're working with our technologies to have their antibodies produce the PER.C6. But as of yet, none of them gives us royalties, and -- but the number is really big, and among them are most of the big pharma companies.

We need to get our shop in the best possible way and we need to make sure that we do whatever it takes to get to the margins that are at par with the industry, and therefore, we launched an operational excellence program, an operational excellence program that has a target of shaving off 15% of the costs -- the real costs -- of 2007. It's well on our way. We've ticked most of the boxes there, and this should generate, on an annual basis, savings of 30 million euros, and that again and again.

With that, I just want to bring you to one important other update. It's our facility in Korea. Since we're paying tax in Korea on the basis of Quinvaxem sales, we decided to change our facility from Seoul to Incheon, which has a tax benefit of 7 years. This is one of the biggest -- I would say the biggest -- vaccine plants in the world. It has -- basically, it is 3 football fields big. We can make over 100 million doses Quinvaxem there and we can do over 100 million doses of hepatitis

B with a cost of goods that's extremely competitive and at par or even better than most of the (inaudible) companies.

That brings me to the last slide -- the outlook of 2009. We will again see strong vaccine sales with double-digit growth going forward, 20% revenue growth. We say significant improvement on our operating profit. And again, we will post a solid cash flow. We continue to pursue key partnerships and there will be a focus on the progress of our clinical programs as much as we can.

And with that, we also will continue what we have done over the last 6 years -- continue to license out our technology to as many possible companies as we could to bring innovation to global health. Thank you so much.

Martin Wales:

The break-out session will start in 5 minutes in the Julliard Room.