



## **MorphoSys AG – Q2 2011 Conference Call Text**

July 29, 2011

*The spoken word shall prevail.*

**Dr. Claudia Gutjahr-Löser, Head of Corporate Communications & IR, MorphoSys AG**

### **Slide 2: Today on the Call**

Good afternoon and welcome, this is Claudia Gutjahr-Löser, Head of Corporate Communications & IR of MorphoSys. With me are Simon Moroney, our Chief Executive Officer, Arndt Schottelius, our Chief Development Officer and Jens Holstein, our new Chief Financial Officer.

First, we would like to welcome you to our Q2 conference call and thank you for participating. During the call, we will talk about the Company's financial results for the first six months of 2011. Our CEO Simon Moroney will start by giving you an operational overview of the second quarter followed by a pipeline review focused on our proprietary compounds by Arndt Schottelius, our CDO. Before we open the call for your questions, Jens Holstein, our CFO, will review the financial results of the first six months of 2011.

### **Slide 3: Safe Harbor**

Before we start, I want to remind you that during this conference call we will present and discuss certain forward-looking statements concerning the development of MorphoSys's core technologies, the progress of its current research programs and the initiation of additional programs. Should actual conditions differ from the Company's assumptions, actual results and actions may differ from those anticipated. You are therefore cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof.

I would now like to hand over to Simon Moroney.

**Dr. Simon E. Moroney, CEO, MorphoSys AG**

Thank you, Claudia, and also from me, a warm welcome to you all.

I'd like to start by welcoming Jens to his first quarterly call as our new CFO. Although we were able to welcome him briefly last time, he is in place since May 1, so this is officially his first quarterly call.

We're going to use this call to provide you with a more detailed update on our three most advanced proprietary programs. For that reason, my comments will be rather brief and confined to our partnered discovery and AbD segments, to allow time for Arndt to talk more fully about our proprietary development activities.

Most importantly, the entire MorphoSys business is performing well, and we are on track to meet the key goals we have set for ourselves this year.

#### **Slide 4: Operational Highlights (I)**

I'll start my review with the partnered discovery side of our business. During the second quarter we received our first clinical milestone payment of the year when our partner OncoMed Pharmaceuticals took a HuCAL antibody into Phase 1 clinical trials. This antibody, coded OMP-18R5, is now in a phase 1 trial in the USA in patients with advanced solid tumors. The antibody targets a component of the Wnt signaling pathway and is being developed within Oncomed's alliance with Bayer Healthcare. This is the second antibody to reach clinical trials within our partnership with Oncomed.

We also entered a completely new partnered discovery alliance during this quarter, with Contrafect, a private, US biotech company. Their focus is the development of combinations of drugs to treat infectious diseases such as influenza and methicillin-resistant *Staph. aureus* – also known as MRSA. Antibodies occupy a central position in Contrafect's strategy, and we were delighted to enter this alliance. We will install our HuCAL PLATINUM library at Contrafect's facilities, and support their use of the technology to make antibodies against selected targets. For a small company, Contrafect has made a very large commitment to our technology, securing access to the HuCAL platform for five years. This deal is a part of our deliberate strategy to exploit the HuCAL technology in infectious disease which are outside of our Novartis alliance.

#### **Slide 5: 75 Therapeutic Antibody Programs Ongoing**

Earlier in the year we gave guidance that during 2011 up to three partnered programs could enter clinical trials. Oncomed's was the first of these, and we still expect up to two additional partner programs to enter the clinic before year-end. Overall, at the end of the second quarter of this year, our total partnered and proprietary pipeline comprised 75 programs, of which 18 were in clinical development. By year-end, we expect the number of 18 clinical programs could increase to up to 22.

#### **Slide 6: Q2 2011: Operational Highlights (II)**

Turning to the AbD Serotec segment, the main operational highlight of this quarter was the announcement that we have licensed seven diagnostic HuCAL antibodies to Proteomika. These products form the basis of kits to monitor the use of therapeutic antibodies, starting with drugs targeting TNF and CD20. The kits are now being sold in Europe, and are the first diagnostic products based on primary HuCAL antibodies to enter the market. We stand to benefit through royalty payments. This marks the beginning of what we expect to be a growing revenue stream as more and more HuCAL-based diagnostics come to market.

That concludes my overview of the quarter, and I'd now like to hand over to Arndt for his review of the proprietary pipeline.

## **Dr. Arndt Schottelius, CDO, MorphoSys AG**

Thank you, Simon.

I'm happy to be able to give you an update on our proprietary development programs. All three clinical-stage programs MOR103, MOR208 and MOR202 are on track in their core indications and in the case of MOR103 also in a second indication as well as a second study to evaluate a subcutaneous administration. As a result we will have five clinical studies with our proprietary compounds running by the end of the year – a significant increase from the two that were ongoing at the beginning of the year. Overall, I'm delighted to report that we are on track to meet all of the goals we set for the unit this year.

### **Slide 7: MOR103 – Phase 1b/2a (MSC-1001) in Rheumatoid Arthritis – Trial Design Update**

With regards to our lead compound MOR103, we expect to fulfill our objective of completing recruitment into the Phase 1b/2a rheumatoid arthritis trial this year and reporting data in the first half of next year.

We made some minor adjustments in collaboration with the steering committee in response to some challenges we encountered in recruiting patients, and in order to streamline the overall trial. Once a clinical trial starts enrolling patients, it is standard practice for a sponsor to monitor factors influencing recruitment. With the streamlined design of the study, which has left the statistical power of the study unchanged, we now aim to recruit 92 instead of 135 patients. The respective regulatory authorities and ethics committees have agreed to these updates.

Additionally, the trial is currently running in four countries, namely Germany, The Netherlands, Bulgaria and Poland and to keep enrollment on track we have added a fifth country, namely the Ukraine, where sites will be open for recruitment within the next several weeks.

Again, we confirm our overall timelines for the trial and the final results in the first half of 2012. With regard to the clinical data generated by this trial I would like to remind you of an aspect which we highlighted first during our R&D Day in October last year, which is the inclusion of magnetic resonance imaging or MRI in this trial. MRI is probably the most sensitive imaging tool for demonstrating early responses to therapy in RA. Indeed, MRI is capable of detecting early inflammatory changes such as inflammation of the synovium - or synovitis and inflammation of the bone - or bone edema - which precede the later forming bone erosions. MRI is thus also allows a patient's early response to treatment to be detected - which would not be possible using less sensitive methods, such as x-ray. The focus of the trial is safety and tolerability but we also aim to demonstrate early signs of efficacy, and MRI as a very sensitive imaging tool will help us to do so.

### **Slide 8: MOR103 – Role in MS**

An interesting piece of news for MOR103 came through a publication in Nature Immunology based on studies performed by the lab of Professor Becher at the University of Zurich. As you can see on the slide, which was also included in our R&D Day in 2010, GM-CSF is thought to be involved in many processes leading to multiple sclerosis or MS. The work performed at the University of Zurich focused on the role of GM-CSF in connection with auto-aggressive helper T cells. The authors for the first time have been able to show that GM-CSF is the key player in a mouse model of MS. This exciting new data support our own pre-clinical findings and give us additional confidence in selecting MS as the second target indication for MOR103.

The planned phase 1b safety study in MS is on track to start in Q4 of this year.

Furthermore, as part of our development plan for MOR103 in MS and RA, we will start a study in healthy volunteers this year to evaluate the bioavailability of MOR103 after subcutaneous administration.

### **Slide 9: MOR208**

In regard to our cancer program MOR208, the Phase 1 study conducted by our partner Xencor in patients with chronic lymphocytic leukemia in the United States who have not responded to or have become refractory to previous therapy is making excellent progress and we expect to have the data available from this study in 2012. This study is investigating the maximum tolerated dose, safety, tolerability, pharmacokinetics and immunogenicity as well as the preliminary anti-tumor activity of MOR208.

As a reminder, Xencor acts as the sponsor of the trial and carries all costs associated with it under the agreed development plan. Following the phase 1 trial MorphoSys will take over full responsibility of the subsequent development of the anti-CD19 antibody program.

### **Slide 10: MOR202 – Promising pre-clinical data presented at ASCO**

Now, let's move on to MOR202, our program in multiple myeloma. First, as previously announced, we presented promising preclinical data at this year's ASCO meeting. In an *in vivo* mouse model of multiple myeloma, MOR202 reduces tumor load as well as tumor-mediated bone destruction. As you can see on slide 11, MOR202 in combination with either Bortezomib or Lenalidomide completely abolished multiple myeloma-induced bone destruction in a synergistic manner. These very encouraging synergistic effects have been seen in both *in vitro* and *in vivo* models of the disease.

### **Slide 11: MOR202 – Phase 1/2a Trial**

And finally, an update on our clinical development plan for MOR202. During the second quarter, we received full and unconditional approval by the regulatory authorities and ethics committees in Germany and Austria to start a phase 1/2a clinical trial with MOR202.

The open-label, dose-escalation study will enroll patients with relapsed or refractory multiple myeloma and will primarily evaluate the safety of MOR202 as monotherapy as well as in

combination with standard therapy. The primary endpoint is to evaluate the maximum tolerated dose, safety and tolerability as well as pharmacokinetics and immunogenicity.

This study consists of two parts. In the first part, participants will receive MOR202 as monotherapy, followed by a second part, a combination of MOR202 with either Bortezomib or with Lenalidomide. We expect data from the first part of the study in 2013.

The study is now recruiting patients and we expect first dosing shortly.

That completes my review of the proprietary development activities and events during the quarter, and I look forward to giving you all a further update in one of our next quarterly calls, or seeing you in person at upcoming conferences and meetings.

With that, I would like to hand over to Jens for the financial review.

### **Jens Holstein, CFO, MorphoSys AG**

Thank you, Arndt.

Ladies and Gentlemen, let me spend some minutes summarizing the most important financial figures of the first six months of 2011.

#### **Slide 12: H1 2011: Consolidated Income Statement (IFRS)**

The financial results for the first six months of 2011 were significantly impacted by the milestone payment in Q1 from Novartis in connection with the installation of our HuCAL platform at Novartis's premises in Basel. Compared to the previous year, total Group revenues increased by 53% to 66.6 million €.

Total operating expenses increased by approximately 24% to 43.5 million €. The main reason was the increase in R&D expenses. Total R&D expenses increased by 38% to 28.2 million €. In the first six months, R&D expenses in proprietary development as well as technology development increased to 15.2 million €. This is in line with our budget, and our guidance to the capital markets in the past.

Group operating profit for the first six months of 2011 amounted to 23.3 million € and net profit increased to 15.0 million €, corresponding to diluted earnings per share of 65 Cents.

#### **Slide 13: H1 2011: Segment Reporting**

Looking at the segments individually, you see the strong impact of the Novartis milestone payment on the Partnered Discovery segment, both on revenues and profits. Cash flows from the partnered discovery segment continued to fully fund all of our development activities.

Revenues in the Proprietary Development segment doubled to 1.2 million €. Those revenues arose from funded research payments relating to the two pre-development programs with Novartis into which MorphoSys will have the option to opt-in after the discovery phase.

Looking at AbD Serotec, you can see that revenues decreased by 10 % from 10.5 million € to 9.4 million € in comparison to the first six months of 2010. As a reminder, AbD's Q1 2010 revenue was particularly strong due to a large OEM order which had a major effect on revenues as well as on profits in that period. In addition, the relatively weak dollar and pound exchange rate against the euro had a negative impact as well. Nonetheless, AbD Serotec returned to profitability during the first six months of 2011.

#### **Slide 14: H1 2011: Balance Sheets**

A quick look at the balance sheet shows that our cash position has increased to around 140 million €. This again – besides our profitability - shows our financial strength in comparison to many other players in the biotech industry.

#### **Slide 15: Share Buy-back**

Let me also quickly comment on the share buyback program that we completed during the quarter. As many of you are aware, we decided to repurchase own shares on the stock market to implement the Company's long-term incentive program. This process was finalized in June. We repurchased roughly 84,000 MorphoSys shares at an average share price of 20.79 Euros per share.

#### **Slide 16: Outlook for 2011**

Before we open the call for your questions, we would like to confirm that we are on track to achieve our full year targets. We continue to anticipate total Group revenues of between 105 million and 110 million €, and an operating profit of between 10 million and 13 million €.

That said, we should note that AbD Serotec is currently tracking behind our revenue target of between 22 and 23 million €, a development that I wouldn't call, as the CFO, terribly impressive. Having said that, please keep in mind that the potential downside of this segment has only rather limited influence on group level.

Before I finish, let me also add a more personal comment. I have now been with MorphoSys for three months and have had the chance to take a look at all areas of the business. It is important to emphasize that the unique financial profile enjoyed by MorphoSys is created entirely by the science underpinning the company. Hence no analysis of the company's finances can be conducted without a thorough understanding of the scientific, developmental, regulatory and medical drivers thereof. As is apparent, MorphoSys's business development efforts have been hugely successful, creating a financial profile that is unparalleled in European biotech as I see it. This profile is characterized by stable cash flows from the partnering business, and in particular our multi-year alliance with Novartis.

Ladies and Gentlemen, that concludes my review for the first half of 2011, and I'll now hand back to Claudia for the Q&A session.

**Dr. Claudia Gutjahr-Löser, Head of Corporate Communications & IR**

Thank you. We will open the call now for your questions.

**Daniel Wendorff, Commerzbank:** Good afternoon, and thanks for taking my questions. Three, if I may, starting off with a specific question on MOR103. Can you potentially already talk about the subcutaneous version, how often it would have to be applied, and is the version already ready? When can we expect the safety study to start? Is it more over the next few weeks or very likely at the very end of this year?

And then a question on AbD Serotec; I was just curious to know how such a deal would work when HuCAL antibodies are incorporated in a diagnostic kit. Is it that you participate not just by supplying the material, but also by getting a royalty on the final in-market sales of the kit?

And then lastly, you talked about new alliances to be signed on the Slonomics technology; what size would this alliance potentially have? Like the one we saw with Pfizer or maybe of a smaller size? And I guess that's also then on the *aryla* technology, so that would be helpful to get more insight there. Thank you very much.

**Arndt Schottelius:** Daniel, thanks for the question. I will take the first on MOR103. I'll just repeat your question. It was about the frequency of subcutaneous administration and when this sub-q study will start. The frequency we don't know yet because that's the whole purpose and objective of this study. We will assess the bioavailability of the program between IV and sub-q administration so that will actually tell us where we will land with the frequency. I can tell you we're really happy with the formulation, which is obviously ready to go, and in terms of... everything is running according to plan with the submissions and, as planned, we plan to recruit the first healthy volunteers in that study in Q4 of this year.

**Simon Moroney:** Daniel, hi, I'll take the next two questions that you asked. First of all, with regard to AbD and the diagnostic deal structure that they do, indeed, royalties are always a component of those deals and supply of material may or may not be. That varies from case to case. But all of the deals contain a royalty component and some of them also contain supply of material that would be manufactured by us.

**Daniel Wendorff:** Okay, but the royalty component is always part of it, yes?

**Simon Moroney:** Yes, exactly, and that's why these deals I think are particularly attractive on the one hand and represents a new revenue component and opportunity for AbD, because of course royalties represent pure profit for us and we hope and expect that that will have a positive impact on their profit margin in the future. And we're really just at the beginning at the moment; these are the first HuCAL-based products to come to market in the diagnostic space and we really hope and expect to see a number more of these in the months and years ahead.

**Daniel Wendorff:** And maybe a question on the potential size of the royalties; is it more that we talk about a low single digit range or maybe even in the double digit range? Just to get a feeling for how big that level could be.

**Simon Moroney:** Yes, I'd prefer not to actually give specific guidance on that for the following very simple reason: there is more variability here than perhaps we see on the therapeutic side and we don't want to obviously give too much away at this stage. But I think the key point is we do see future royalties on diagnostics as being a very, very attractive potential revenue stream.

Then to your question about new alliances around Slonomics, perhaps aryla, again, we don't like to give precise predictions of sizes of deals or expected revenue streams or timings. Let's just say that we see interesting opportunities to exploit Slonomics based technologies in different ways actually, but as to when and precisely how much revenue those deals are going to generate I'm afraid we'll have to be rather quiet on that and hope to surprise you with some news on that in the future.

**Daniel Wendorff:** But you're confident that something will still happen in 2011?

**Simon Moroney:** We don't want to give specific guidance on timing of deals, again, for competitive reasons which I'm sure you can understand.

**Daniel Wendorff:** Of course, yes.

**Simon Moroney:** But we do see interesting and potentially attractive opportunities around the Slonomics technology.

**Daniel Wendorff:** Okay, thank you very much.

**Mick Cooper, Edison Investment:** Good afternoon. A couple of questions about the MO103 trial, the on-going 1b/2a trial. First of all, have you just decreased the number of patients from 135 down to 92? Are there any other changes, possibly to do with the screening of potential patients? And also, can you explain how you can reduce the number of patients that you have and leave the pairing of the trial unchanged? That seems a bit strange to me. And then one other question on the new technology; can you give us any guidance on when we might hear about the new technology being rolled out?

**Arndt Schottelius:** So, Mick, thanks for that question. Let me start with that. First you asked about the number of patients. So we looked at the numbers and as it is with many RA trials we experienced some hurdles there with the recruitment – not unusual at all. Then we worked with the steering committee to really optimize enrollment and to approve the study plan.

We came up with a smart way, which I hope you can understand I don't want to share all the details, but I can assure you we looked at this very, very carefully with a number of independent statisticians. The scientific value and the statistical powering of the study are unchanged. It's a legitimate question to ask so we're very sure about that.

We have changed some of the inclusion criteria, looked at this very carefully and not surprisingly, for example, CRP (C-reactive protein) were asked specifically. It's one of those hurdles. So, as you can also look up in the clinical trials register, we left the CRP enrolment

criteria at five milligram per milliliter for those patients that are negative for rheumatoid factor or anti-CCP (anti-cyclic citrullinated peptide antibodies). Those are important markers that also show activity and have allowed those patients at lower levels, at 2.5, to be enrolled only if they're either positive for rheumatoid factor or for anti-CCP to really ensure that they have the adequate activity.

Also, what we have allowed now is patients that have been on Rituximab, if they're on a stable dose which we think is very reasonable, and there was a slight change; women of a childbearing age are allowed – that was based on the toxicity data – if they're on a stable dose of Methotrexate and Leflunomide.

**Mick Cooper:** Okay.

**Simon Moroney:** And Mick, coming on to the third question regarding the timing of the technology announcement, we've guided that it will be this year, so before the end of the year, but at this stage I can't give more precision than that.

**Mick Cooper:** Okay, thank you.

**Martin Possienke, Equinet Bank:** Hi, good afternoon. Just one question regarding the AbD statement: Can you maybe give me the figures for the goodwill as of December 2010 and maybe for other intangibles to date related to this business unit and then maybe your key assumptions regarding the impairment test?

**Jens Holstein:** Well, thanks very much for the question. Maybe let me put the comment from myself in the right perspective first before I come to the numbers here. Well, the AbD segment's recent performance is certainly not there where we would like to see it. On the other hand, and I think Simon already pointed it out, the segment is really making solid progress in diagnostics and here we see significant opportunities coming up.

So far, the goodwill or the participation, the total value of the participation for AbD is around 37 million and you see that in last year's annual report there is an explanation and a calculation made, also an impairment test evaluation. We passed in the review of PriceWaterhouseCoopers - and this is not an audit but it's a limited review of the half-year numbers - the impairment test without any problems.

So it's not a problem here really that either the management or the auditors see a problem on the value of AbD, but nonetheless as the CFO if I see that numbers are below what we have planned I can't be happy and that is what you should get as a message, that I certainly always will have a very close look at the goals which we set and that we achieve those goals.

**Martin Possienke:** And what are your key assumptions for the goodwill? Is it still 10% growth over the next couple of years?

**Jens Holstein:** I think we've got to see this growth of 10% as certainly something we should keep in mind – that's the right ballpark of growth we should aim for. On the other hand, that means also that we can't expect in that sort of industry we're acting in that we have 10% revenue growth year-on-year like clockwork. Payments like the technology milestones on the therapeutic side which we've seen in Q1 by Novartis this year are lumpy by nature and the

timing of new deals is extremely difficult and hard to predict, so this results in some volatility for the top line and that is something we have to say for the future.

**Martin Possienke:** No, that's quite obvious. I mean, the 10% was the target for the last years as well and you never achieved it so I know that it's going to be lumpy. No, but just for the future and for the impairment test I think there will be another one in the second...

**Jens Holstein:** Ah, sorry, I was talking about the group. You're talking about AbD alone, yes?

**Martin Possienke:** Yes.

**Jens Holstein:** Ok. Well, I can't give you details. We never give predictions for the forthcoming year for a single segment here. We always give our guidance at the beginning of the year for the year and I would like to stick to that and especially here for AbD as well, so there is no reason why we should look at AbD here separately.

**Martin Possienke:** Because you do it in your annual report; you use 10% for the goodwill impairment test, if I'm right. You used that figure of 10% and I would like to know if you still used it in this half-year review and if you will use it in the future as well.

**Jens Holstein:** Well, for the impairment calculation of AbD we certainly assume very detailed plans year-over-year with a specific growth number and then certainly also specific growth for the unit which is much lower than the 10%, very much lower. That's what we do. So we do it in a very precise way whereas our guidance is rather in a broad manner.

**Martin Possienke:** Ok. Can you maybe tell me if there are other intangibles? You said goodwill is 37 related to AbD and...

**Jens Holstein:** Yes, actually the goodwill alone is 26.7 million and there are other intangibles adding up to 37... but the total value for AbD is 37 million.

**Martin Possienke:** The safety cushion of €5 million, that was on the goodwill alone in December 2010?

**Jens Holstein:** I have to come back to you on that one, actually. I'm not aware of the underlying calculation for that from last year. I have to figure that out. I'll come back to you on that.

**Martin Possienke:** Yes, sorry for being such a nerd. Okay, thanks a lot.

**Mark Pospisilik, Kempen & Co.:** Hello, good afternoon and thanks for taking my questions. Just two. One on the MOR202; given how busy or crowded the multiple myeloma space is I'm just wondering if you can give us any color on discussions with regulators leading up to the approvals or what issues they were concerned with? And maybe do you already have the clinical trial centers online and what level of interest was there for the program? And maybe another one on AbD; if you could just perhaps give a little color on why the segment is on or is behind target, whether this is a short-term thing, whether, I assume MorphoSys fully intends to address this in the short-term or whether it's more of a structural thing? Thank you.

**Arndt Schottelius:** Yes, Mark, I'll take the first question on MOR202. Thank you for that. Indeed when we discussed with the regulators there were no issues. You're right, of course this is a crowded space, we're aware of that. We think we have a good molecule, a good rationale

here. There were really no issues that were specifically raised. The study has unconditional approval and we have a way forward. The interest of the investigators is great. We had terrific investigator and scientific advisory boards and it is open in Germany, the sites are open in Germany and Austria, and I can tell you that the investigators are highly motivated to recruit patients. As we said, we are on track here, the first sites are open, and we expect dosing to occur shortly.

**Simon Moroney:** And, Mark, to your second question about AbD, why is it behind target, I think it's a combination of factors. There is some currency effect in there, definitely a Dollar weakness; for example, a big chunk of the revenue on that side of the business is in Dollars, but I think also there's an element of difficult challenging market conditions. Research budgets are under pressure, as I'm sure you're aware, and that feeds through into this market and, as Jens kind of hinted at, we feel that the unit can simply perform better as well, so it's really I think a combination of factors.

Things have definitely improved a bit over the last few months. We see the trend here is in the right direction, it's improving, and we're confident that we can finish the year in the second half strongly. So I think there's a combination of factors that play on the numbers you see today, but we're confident in the near term that things can improve and we're confident in the longer term that as we transition to a product mix that is more diagnostics based with these royalty components to them that that should have a fundamentally positive impact on the margins in that business.

**Mark Pospisilik:** Okay, great. Thank you. Maybe just one quick follow-up on the MOR202. Is there perhaps an advantage to the MOR202 or a niche from the regulators for clinical trial centers, their perspective, that they find this particular molecule attractive?

**Arndt Schottelius:** So you mean in terms of on-target competition or in general? I can share with you, I think, what we've mentioned during the R&D day that we see, for example, a clear advantage; of course it's specific for multiple myeloma. With this particular molecule we have the advantage that we have very solid toxicity data that other CD38 competitors, for example, don't have – that gives us kind of a kick-start there in a way also with safety. I want to re-emphasize you might have seen or we'll be glad absolutely to share with you the poster that we had at ASCO which I find very encouraging.

What we showed there, really supporting our strategy in the clinical trial, that MOR202 combined with two of the approved standard therapy, namely bortezomib and lenalidomide, the proteasome inhibitors, not only doubles or added the effect that it was strongly synergistic upon very strong statistical rules, which again we'll be happy to share. People who saw the poster were quite impressed. The investigators are impressed by the data and I feel very confident that this is a good strategy to first test this molecule, as we said, in the first phase in monotherapy and then in combination therapy.

**Mark Pospisilik:** Great, thanks.

**Thomas Schiessle, EQuITS:** Concerning MOR202 and the mono and combination therapy, did I get it right that first you start with the monotherapy and data will be available in 2013?

**Arndt Schottelius:** That's correct, Thomas. I can confirm that exactly.

**Thomas Schiessle:** And second, so afterwards, you start the combination therapy and multiple myeloma so we will see data later on?

**Arndt Schottelius:** That's correct. But, Thomas, it's an open-label study. We will have on-going data also on the combo arm.... kind of on-going in 2013 and then we will see the final data a little later.

**Thomas Schiessle:** May I ask with regard to the MOR103 and the change in recruitment scheme, there's a new recruitment scheme with up to 92 patients... Does that mean that the overall phase one cost for these tests will be lower, significantly lower, so that we will have to change our, let's say our spread sheet, so to speak?

**Arndt Schottelius:** Thomas, you shouldn't make that assumption. Of course, it is true there will be some lower patient numbers we expect overall. We've also mitigated by adding another country – I referred to that. We have a fifth country with Ukraine which is usually a strong recruiting country. We see that also in Poland. So I would suggest not to change anything.

**Thomas Schiessle:** And one general question, if I may. Up to now you invested a little bit more than 15 million in technology and other projects for your own purposes. Shall we assume an even higher number to be spent in the second half of the year?

**Simon Moroney:** Thomas, that relates our proprietary R&D investment.

**Thomas Schiessle:** Indeed.

**Simon Moroney:** Yes, so the guidance for the full year on that is 40 to 45 million, remember, that we issued at the beginning of the year and we're standing by that number or that range.

**Thomas Schiessle:** Could you give us any hint? Will most of the amount be paid in the third or in the fourth quarter?

**Simon Moroney:** No, in short, but you should... if you look at the general trend, the general trend is...

**Thomas Schiessle:** Is up, indeed.

**Simon Moroney:** So you can probably extrapolate reasonably from that because there may be more in the fourth quarter than the third quarter, but I think an important point to make here is that this is not a one-way track. A substantial chunk of our expenditure in proprietary R&D is external, contract manufacturers, contract research organizations, and those are things of course which are not locked in for the long-term. It doesn't represent permanent headcount, here at MorphoSys or bricks and mortar and so you shouldn't automatically expect the proprietary investment in R&D as a one-way track going upwards.

**Thomas Schiessle:** Okay, thank you.

**Gunnar Romer, Deutsche Bank:** I have a couple of questions. We've been talking a lot about your own proprietary programs, but I was interested in an update on your partner pipeline and the potential availability of phase two data still this year. I know that you're dependent on your partners, but maybe you can shed some more light on this? And then secondly, could you please remind me of the visibility in AbD as regards the acceleration of the business in the second half? And then thirdly, more a general question, going into next year you'll probably

lose some of the revenues you've recorded this year, in particular with regard to the technology milestone from Novartis, and I was wondering what your strategy would be in terms of adjusting your own R&D? Is it still your aim to remain profitable also going into next year despite a lower revenue base but still on-going proprietary development? Thank you.

**Simon Moroney:** Okay, thanks, Gunnar. Let me start on that. First of all, regarding the partner programs, as you mentioned, we have no influence over what the partners choose to say about those programs and when. We rely on their decision when they're going to communicate their data.

We're aware of the timing of the various trials that are on-going. We're aware, for example, that the three Centocor programs, one phase two program, two phase one programs are scheduled to be completed this year and that may of course mean that they could announce data from one or more of those programs at one or more of the conferences that are coming up, but again we have no influence on that.

I think in general as we look kind of for the next 12 to 18 months, so from now to the end of next year, there's quite a lot of data that could become available, also phase two data from other programs, and so we would expect there to be a rather newsy period over the next let's say 12 months or so, but again we can't influence what they say and when they say it.

Regarding the second question about visibility on the acceleration of AbD in H2, the second half of this year, we see... as I said, things are tracking up at the moment and have been... we've had a good last couple of months and that makes us confident that things will pick up. There is some seasonality to that business of course. So, for example, summer, august is usually a little bit quieter, but then the latter part of the year is usually quite good historically, so based on that alone we would expect some acceleration and, as I said, we've seen a trend in the right direction over the last couple of months.

Regarding revenues for next year, let me just say in general that we certainly do intend to remain profitable and stick with something that has become a by-word at MorphoSys, which is that we fund our own proprietary activities out of our operating cash flow. We see we have a clear path to how we can do that.

In terms of revenue sources, I think Q1 and the Novartis milestone has illustrated how lumpy our revenue can be and I think we should prepare ourselves for that sort of thing in the months and years ahead as well. You should expect lumpiness. For example, when the time comes to out-license a proprietary program, that's typically associated with an upfront payment, that type of revenue is very lumpy obviously.

So this will become more the case as we look for the next couple of years ahead, but in general we intend to remain profitable and we intend to fund all of our proprietary activities out of operating cash flow.

**Gunnar Romer:** Okay, thank you, that's helpful. And maybe, if you can just follow up on the last question? How flexible are you really in terms of your proprietary R&D funding?

**Simon Moroney:** We are somewhat flexible. As I mentioned before, we have deliberately not built up a huge infrastructure and a lot of bricks and mortar internally. We do a lot of our work externally with contract manufacturers, contract research organizations. To give you one example, we deliberately chose not to establish an animal facility in-house as other companies

may have done which is really fixed costs and represents expensive maintenance and something that you can't turn on or off very quickly. So the fact that we have a lot of external relationships and external cost gives us quite some flexibility as and when necessary to adjust our R&D investment.

**Gunnar Romer:** And can you give us an indication of the external cost relative to your total spending?

**Simon Moroney:** Yes, it's around 50%. Certainly I remember for all of last year the number was pretty much exactly 50%.

**Gunnar Romer:** Okay, thank you very much.

### **Dr. Simon E. Moroney, CEO, MorphoSys AG**

Thank you. I'd like to close by reminding you of the key messages to take away from this call.

We are on track to reach all of our most important goals for this year. Our pipeline is progressing well, and Arndt and his team are confident of reaching the challenging objectives we set for all three of our most advanced proprietary programs this year. Our partnered discovery business also continues to perform well – the Oncomed and Contrafect announcements are nice examples of the success of both existing partnerships and our ability to form new ones. Finally, while AbD Serotec is experiencing some currency head-winds, the introduction of the first HuCAL-based diagnostic kit on the market represents an important strategic step forward for the unit.

### **Dr. Claudia Gutjahr-Löser, Head of Corporate Communications & IR**

That concludes the call. Should any of you wish to follow up with us directly, we are all in the office for the remainder of the day. Thank you again for joining the call and goodbye.

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