



## **MorphoSys AG – Q3 2011 Conference Call Text**

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*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, Jens Holstein, our Chief Financial Officer, and Arndt Schottelius, our Chief Development Officer.

First, we would like to welcome you to our Q3 conference call and thank you for participating. During the call, we will talk about the Company's financial results for the first nine months of 2011. Our CEO Simon Moroney will start by giving you an operational overview of the third quarter. Before we open the call for your questions, Jens Holstein, our CFO, will review the financial results of the first nine months of 2011. Arndt Schottelius joined us today as well, and will answer your questions around our clinical programs.

### **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 the call.

### **Slide 4: Pipeline Update**

This was a quarter of solid operational progress, as summarized on page 4. Our main value-driver, our pipeline, continued to advance and we reported progress on several proprietary and partnered programs.

I'll start the review with our proprietary product portfolio. The main news in the third quarter was the entry of MOR202 into the clinic. MOR202 became the third proprietary program to enter clinical trials, and the second cancer program. We have approval from the regulatory authorities in Germany and Austria for a trial in relapsed or refractory multiple myeloma patients that incorporates not only a standard monotherapy, dose-escalation arm, but also an extension at the effective dose or the maximum tolerated dose, plus two combination arms. The fact that this is a four arm study means that it will take some time to complete, but being open-label means we will probably release interim data along the way, most likely before commencement of the combination arms.

The two combination arms will pair MOR202 with Revlimid and with Velcade respectively, and are based on very promising pre-clinical findings that we announced at ASCO this year, showing synergy between antibody and small molecule in each case.

Regarding the two other proprietary programs in the clinic, these are continuing according to plan. For MOR103, our anti-GM-CSF program, we are on track to complete recruitment into the ongoing phase 1b/2a trial in rheumatoid arthritis patients in the coming months, and to report data in the first half of next year. We are also on track to begin two additional trials of MOR103 this year, namely the phase 1 safety study in multiple sclerosis patients and the phase 1 study of a subcutaneous formulation in healthy volunteers.

Very new data adds to our confidence in our MOR103 program. You may have seen that a late-breaking abstract from MedImmune for the upcoming ACR meeting in Chicago was published on Wednesday. The abstract shows data from a phase 2 trial in rheumatoid arthritis patients of Mavrilimumab, an antibody against the GM-CSF receptor. This antibody targets the same pathway as MOR103, but via a different mechanism. The reported absence of significant toxicity, fast onset of action, and clear efficacy signals all bode well for our program. We interpret the data as very encouraging, and a sound clinical validation of the pathway.

For MOR208, the cancer program for B-cell malignancies, recruitment into the U.S. phase 1 trial in CLL patients is continuing according to plan, and we expect to be able to report data from this study by the middle of next year.

Turning to our partnered discovery segment, recent progress here highlights again the extraordinary depth of our pipeline. Our partner Bayer Healthcare took another HuCAL antibody into clinical trials during Q3. This program is another antibody-drug conjugate, or ADC, bearing the code BAY94-9343. While this is the second ADC that Bayer has taken into the clinic, it comes at the same time as their decision to stop clinical development of the first one, BAY79-

4620. With regard to the latter, Bayer has informed us that they do intend to pursue the antibody further, but we have now re-classified this program as being at pre-clinical stage in our statistics.

We also saw some exciting progress within our largest collaboration as Novartis advanced the program BYM338 from phase 1 into two phase 2 trials. This program against a musculoskeletal target thereby became the seventh HuCAL antibody to progress to phase 2 clinical trials. Details of the studies can be found on the website *clinicaltrials.gov*.

Shortly after the end of the quarter Hoffmann-La Roche announced amyloid imaging data for the HuCAL antibody Gantenerumab, which is being developed for Alzheimer's disease. The results of the study are very encouraging for this potentially huge commercial opportunity and major unmet medical need. The key finding was a dose-dependent reduction of plaque in the brains of the patients participating in the trial. Of particular importance was the rapid onset of the effect, which was evident within a matter of months. Gantenerumab is now in an ongoing phase 2 study which aims to recruit 360 early-stage or "prodromal" patients.

### **Slide 5: 78 Therapeutic Antibody Programs Ongoing - 19 in Clinical Trials**

To round out the overview of the therapeutics segments of our business, we provide the usual update on the overall status of the pipeline on page 5. Altogether, at the end of the third quarter, our total partnered and proprietary pipeline comprised 78 programs, of which 19 were in clinical development. So far this year, two partnered programs have entered the clinic, and based on the most recent information we have, we do not expect any further programs to commence clinical phase 1 trials in 2011. We may, however, see a further program progress from phase 1 to phase 2 clinical development.

### **Slide 6: AbD Serotec Update**

I'll complete the review of the quarter with a look at AbD Serotec. The most significant development of the quarter was the agreement with Merck & Co for the use of our HuCAL technology for vaccine research. In addition, during Q3 a supply agreement was entered with the Dana-Farber Cancer Institute in the United States, under which AbD Serotec provides research tools to support Dana-Farber's research activities in the field of infectious disease. In addition to revenues linked to the reagents provided, MorphoSys has preferred rights to commercialize any products emerging from the collaboration. AbD Serotec also entered an agreement with the Moredun Institute and the Roslin Research Institute in the UK under which reagents developed by the institutes are made available for us to commercialize.

That concludes my summary of the quarter - I'll now hand over to Jens for his financial review.

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

Thank you, Simon.

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

### **Slide 7: Consolidated Income Statement (IFRS)**

The financial results for the first nine 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 33% to 83.7 million €.

Total operating expenses increased by approximately 17% to 64.1 million €. The main reason was the increase in R&D expenses. Total R&D expenses increased by 29% to 41.9 million €. In the first nine months, R&D expenses in proprietary development as well as technology development increased to 26.1 million €.

Group operating profit for the first nine months of 2011 amounted to 19.9 million € and net profit increased to 13.0 million €, corresponding to diluted earnings per share of 56 Cents.

### **Slide 8: Segment Reporting**

Looking at the segments individually, you see again 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 increased to 1.9 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 6 % from 15.0 million € to 14.1 million € in comparison to the first nine months of 2010. As a reminder, AbD's Q1 2010 revenue had been particularly strong due to a large OEM order which had a major effect on revenues as well as on profits in that period. Despite strong currency headwinds and a challenging market environment, AbD Serotec showed for the first nine months of 2011 an operating profit margin of 3 %.

### **Slide 9: Balance Sheets**

A quick look at the balance sheet shows that our cash position has increased to 143 million €. This again – besides our profitability - shows our financial strength in comparison to many other companies in the biotechnology sector.

### **Slide 10: Outlook for 2011**

Before we open the call for your questions, we would like to update our financial guidance for 2011. We re-confirm our operating profit guidance range of 10 – 13 million € despite a slightly

lower level of sales. Sales are negatively impacted by currency fluctuations and some minor shifts in milestone payments. Fluctuation in exchange rates are expected to have a negative impact for the full year in excess of 2 million € for the Group, compared to the underlying budget exchange rates. Largely due to such currency effects, AbD Serotec will not hit its original revenue projections. We currently expect AbD Serotec revenues for the full year of approx. 20 million €. Nevertheless, we expect the unit to achieve an operating profit margin of approx. 4%, as previously guided.

We'd also like to take this opportunity to give you some perspective on our future planning. Our top operational priority is to advance our proprietary clinical programs MOR103, MOR202 and MOR208. We anticipate that total investment in these three programs in 2012 will be substantially less than this year, the reasons being that a lot of the costly production of clinical material has already been performed, and also because the phase 1b/2a trial of MOR103 in RA will be completed soon. Although we've yet to see any clinical data from the ongoing MOR103 study, this is likely to be the first compound we will partner. An important point is that we are not reliant on any income from this program for maintaining profitability. With regard to revenues, the foundation that we have established with our pharmaceutical partnerships together with our AbD business remains very solid. You can see this foundation in our numbers this year if you take out the technology transfer milestone payment that we received from Novartis in Q1.

Our ability to invest strongly in R&D while remaining profitable is at the core of the MorphoSys business model, and is something we're committed to maintaining. I want to emphasize that this does not come at the expense of our proprietary programs which will be advanced as quickly as possible.

Ladies and Gentlemen, that concludes my review for the first nine months 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.

**Thomas Schiessle, EQUI.TS:** Simon, a question on the overall strategy. If I take metrics right, the R&D expenses in the last quarter – they went down to some extent. Is this the start of the, as just indicated, reduction of the level of R&D which you indicated for next year? And to which extent shall we model in the level of reduced R&D expenses. This is the one question and the other is... if it comes to AbD Serotec, your efforts to broaden the business is quite progressive on the one hand. On the other hand, these numbers are really poor, and there are headwinds from the overall business climate and from - when it comes to the public and all deficit discussions - there will be some headwinds furthermore. What is your reaction or what will be your plan to counteract the new situation in this field. Thank you.

**Simon Moroney:** Okay. Thanks Thomas. Maybe to the first point, the one about the R&D investment next year, and Jens's comment that it would be less than this year: This is purely driven by the programs. And as we said, we have it as an absolute priority to advance the proprietary programs as quickly as we possibly can and not to compromise on those programs at all, and we will invest accordingly. It just so happens because some of the preparations we already done for those programs and because of the fact that the main investment in MOR103 is almost complete, that the R&D spend will go down next year.

And this underscores something that was said in the past which is that our R&D investment is not a one-way track, continue to increasing, it's driven by the need of the programs and therefore it can vary. We are very happy that, despite pushing things as fast as we possibly can next year we will actually spend less on proprietary R&D. So we see that as good news and not a reflection at all that we are somehow de-prioritizing activities or slowing programs down. That's certainly not the case, at all. Turning to AbD Serotec, there is no question that the environment is challenging. We mentioned the currency effects, the headwinds that we had there, the research market in general, particularly in Europe, we see as being challenging. Actually the U.S. is rather robust at the moment. So, that market we are quite happy about, but the European market is certainly challenging. I think as we look out into the future for AbD Serotec what's exciting is more and more the activities they are doing in the diagnostics segment.

And we've seen that the first diagnostic product based on a HuCAL antibody has come to the market earlier this year, with our partner Proteomika, we expect more in that direction in the future out of the existing partnerships that we have with a diagnostic focus. And, we're optimistic that, a greater emphasis in that diagnostics fields will be the driver of greater growth and greater profitability in the years ahead, more so perhaps than the focus that we've had on research reagents in the past.

**Thomas Schiessle:** May I ask you additional question on the AbD field?

**Simon Moroney:** Sure.

**Thomas Schiessle:** You have reiterated that the first kit from Proteomika is on the market. Do you have any experience what the acceptance of the market is for this kit? And, you just

recently announced that you are collaborating with the Roslin and the Moredun Institute in the veterinary field of antibodies. What is the impact on the bottom-line when it comes to the veterinary activities? Are these only additional activities or will this be a mainstay of your revenue structure in the future?

**Simon Moroney:** Okay. First of all regarding the Proteomika kit, it's very early days. These are kits to measure the levels of therapeutic antibodies. So, they are based on an anti-idiotypic antibody, which is a strength of the HuCAL technology, the ability to make antibodies, which bind to the idiotype of existing antibodies. We see this as being a big opportunity. We see a lot of interest in this space to be able to quantify the levels of therapeutic antibodies in biological samples, to guide and help dosing and prescription decisions in the medical community. But as I say, it has only just come on the market in the summer. So, it literally couple of months ago. It is really bit to early to say what the acceptance would be or what the uptake would be. Regarding that Moredone and Roslin Institute agreements, that speaks to one of the strength actually of AbD Serotec which is in the veterinary field. We have a large selection of veterinary reagents in our offering and this looks to build on that. We see, for example, an increasing demand for kits to detect epidemics in animal populations for example one area that's particularly current is bovine tuberculosis and we have recent introduced a kit on the market for measuring and detecting that condition.

So, this collaboration is with two of the leading veterinary organizations in the U.K from which we will benefit that the emerging reagents will be commercialized exclusively by AbD Serotec. So, it fits very well with the existing portfolio and the existing competence of AbD.

**Mick Cooper, Edison Investment Research:** Hi, good afternoon. Couple of questions, both on the pipeline and then on to AbD Serotec. For MOR202, can you give an indication on how recruitment is going so far. Then with MOR103, you spoke a little bit about out-licensing. Should we expect you to wait till you have the data from the other, the subcutaneous and the MS trial before an out-licensing agreement or could you out-license it before then? And finally on AbD Serotec, you spoke about the progress with the license agreements with Merck, Dana-Faber and also with Roslin institute. Are these going to help to offset the headwinds are you experiencing. Could you give a kind of guidance on the revenue growth from AbD Serotec?

**Arndt Schottelius, Chief Development Officer:** Mick I'll start with addressing the first question about your recruitment of MOR202 and then hand over to Simon for the other questions. So, I can ensure you recruitment is going well. What we see is very great interest at the investigators also triggered by, I think, a quite innovative trial design. So that's all going according to plan. Hopefully you can understand that we can't share details, but it's exactly how we wanted to be, we kind of already achieved some kind of interim milestone here. So that's all going very well to our pleasing.

**Simon Moroney:** And Mick, let me pick-up on the plan for MOR103. We don't intend to wait for the completion of the subcutaneous and multiple sclerosis studies, before partnering this program. The intention here and the plan here is to get this thing moving along in RA as quickly as we can. As you know it is a competitive field. We are very encouraged by the Mavrimumab data we referred to and so given positive data from our trial we will be looking to partner that thing as quickly as we can.

As we said in the speech, we don't plan for that, specifically, but we are confident that if the data is good then the level of interest that we've seen already out there is strong enough, so that we will be able to partner the program.

**Mick Cooper:** Okay.

**Jens Holstein:** And Mick maybe I'll answer your question on AbD. As you know, it's a bit early for a guidance now, and we will give our guidance beginning of the next year also for AbD as well as for the group. But certainly these initiatives which we have kicked off for AbD have a positive impact in the mid-term, at least. We are very optimistic that we are able to achieve a little re-strategy approach here with AbD looking more into the diagnostic segment and into the research segment and some of these initiatives we have kicked off this year are exactly going into that direction and looking into the details numbers of the sales where we're standing this year. I think we are really moving in the right direction. But I can't say more than this. We are happy to discuss more details on guidance for AbD next year.

**Mick Cooper:** Okay. Thank you.

**Sachin Soni, Kempen & Co:** Good afternoon everyone. My question is regarding data of Mavrilimumab. What do you think would be the competitive edge of MOR103 when compared when compared to Mavrilimumab itself?

**Arndt Schottelius:** Thanks for that question; I'll take that on, Sachin. So you ask about the differentiation potential. First we said of course we feel very encouraged that we see really strong clinical proof of concept here. One possible advantage that we could imagine, it's difficult to tell in advance, is we know that of course we have different targets in the same pathway. Mavrilimumab, as you know, targets the receptor, the receptor is abundantly expressed in a number of blood cells, circulating blood cells, whereas we target the free-floating ligand. The ligand is not so abundantly expressed, we know it's expressed at the site of inflammation, would be much less abundant than other cytokines like, let's say, TNF or IL1-beta. So we believe you will probably need fewer amounts of the antibody to bind the targets, which could be a dosing advantage.

**Sachin Soni:** So a dosing advantage and, in terms of side effects, if we see the data it says decrease in carbon monoxide diffusion capacity, which is actually double than placebo. If it's so, do you see this kind of side effect as kind of a hindrance that you can't breathe properly in terms of treatment of RA or do you think it's going to be an acceptable side effect?

**Arndt Schottelius:** So what we see, of course I'm sure at the ACR we'll all see much more details on those reported side effects, what I'm reading from the abstract I think looks like a clean, very manageable safety profile. To me, I think we'll need to understand what the extent of that decrease was. Keep in mind, as I read the data, because there's not much detail, this sounds like something very insignificant, clinically insignificant. Of course anything that would affect respiratory would only show in real pulmonary endpoints, which of course the diffusion capacity is sensitive but it, at this point, doesn't look clinically significant to me. Obviously, we would need to look at the details. So overall I don't see any concern in that safety profile so far reported.

**Sachin Soni:** Great. Thank you.

**Olav Zilian, Helvea:** Hi. Thank you for taking my question. I would have one for Arndt. Could you please comment on the Bayer compound that was stopped, what the reason was?

**Arndt Schottelius:** So we don't have all the details, Olav. I think what has been reported that there were clinical signs observed, not unusual at all in a Phase 1 trial, and they obviously came to the conclusion that the potential benefit for the patients does no longer outweigh any potential risk, as you do at these early trials. So we don't have the details, but as usual for this kind of stage of trials, it's a risk/benefit judgment you have to do.

**Simon Moroney:** I think the encouraging news is that they're not stopping the program entirely, that they like the target, they like the antibody, I guess, and so they intend to continue with it is what they've told us but obviously, as far as we're concerned the compound or the program, let's say, has reverted to being a pre-clinical program.

**Olav Zilian:** Okay, so they like the antibody, so the follow-up question would be wouldn't they like the linker technology and prefer to recycle the antibody for a different kind of conjugation, like maybe also from a different company than Seattle Genetics?

**Simon Moroney:** Yes I think those are details that you're really going to have to ask Bayer, we're not -- this is their program, it's our antibody but it's their program and I think you're going to have to go directly to them for answers to those kinds of questions.

**Olav Zilian:** Okay, fair enough, thank you very much.

**Elmar Kraus, DZ Bank:** Good afternoon and thanks for taking my question. I've actually got two questions left, one is on the spending for proprietary R&D, so originally there was a guidance of EUR40m to EUR45m spend for the whole year, if I found the figure correctly there, currently it stands at EUR25m. So, to me, that suggests that you won't reach those EUR40m, EUR45m, so wouldn't that allow for an increase in the operating result guidance if there is less R&D spends which we have seen in Q3 over Q2? And the second question is on ongoing profitability, so this year we had a highly profitable Q1 and two negative quarters, Q2 and Q3, and Q4 will most likely be also negative. So what makes you so secure that 2012 will also be profitable without such a huge milestone payment as received this year from Novartis.

**Jens Holstein:** Yes, thanks, Elmar. If I may just give you answers on the two questions. So first of all on the R&D spending, it is correct Q3 was a little bit weaker in terms of the spending than in Q2, which by the way is nothing really surprising because we are seeing that when you look at the numbers for the partnered business in the past as well and also this year for the partnered business. So you can say there is some sort of seasonality there because basically you have costs when you have deliverables and there is just the summer break which has some impact, yes. On top of that you're right we have -- we are now at EUR25m plus, the technology development part, which you have to add up. So that's why we came to EUR26.1m and that has been the basis for our guidance of EUR40m to EUR45m. And there is a certain likelihood I would say that we most likely will be below the EUR40m R&D cost range which we have or the EUR40m to EUR45m R&D cost range which we have indicated as a guidance. The impact on the profitability for this year, well, as we have said we have slightly lower sales that is driven by currency as well as some delays in -- minor delays in milestones really. And that certainly also

falls through in the profit line. And as we have given a guidance for this year, 2011 from EUR10m to EUR13m you know you always have a sort of range because you can't exactly predict what number it will be. But that is basically to a certain extent netting itself.

**Elmar Kraus:** Okay, and the question on 2012?

**Jens Holstein:** 2012, well, as I mentioned for AbD it's just not timing for a guidance for 2012 at this point in time. I think guidance we will give, as I mentioned, beginning of next year when we are ready to give a detailed guidance.

**Simon Moroney:** And maybe just to add to that, Elmar, you know the -- as we stated in the speech the commitment to maintaining profitability is absolute and we are absolutely confident that we can maintain that.

**Elmar Kraus:** Thanks for that clarification Simon, thanks.

**Gunnar Romer, Deutsche Bank:** Maybe one follow up to your last point, so would you expect a similar increase like last year for the fourth quarter in partnered R&D?

**Jens Holstein:** For the fourth quarter 2011?

**Gunnar Romer:** Yes. It jumped to EUR 6.3m last year from EUR 4.7m in the third quarter, and I was just wondering whether we are now about to see a similar increase in the fourth quarter in partnered R&D.

**Jens Holstein:** I can't say off the top of my head what exactly the increase is but you will see a slight increase. If you see where you are -- where we are running now in Q3, the difference between your number and the difference where we have been in Q3 is not so significant.

**Gunnar Romer:** Yes

**Jens Holstein:** So I can't say on top of my head now is it EUR 6.3m or whatever number it is, but you will see, I am sure, an increase in Q4 in comparison to Q3.

**Gunnar Romer:** Right, okay. And then one last question on your partnered pipeline, I can remember from previous calls that you indicated or were hopeful that we might see data from the Centocor program still this year. Can you give us an update here please?

**Simon Moroney:** The update that we can give you is that we don't have information on that at this stage. So, --

**Gunnar Romer:** And your best case assumption would be still this year or rather next year?

**Simon Moroney:** You know there is still a possibility that we could see something at ASH for which the abstracts I think are only due in a couple of weeks time. So we'll obviously await that with interest. I think under the assumption that it would appear first at a conference, if it doesn't appear at ASH then I would guess it's probably going to be next year.

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

**Olav Zilian, Helvea:** Thank you. I would have a question to Simon. It's about the antibody drug conjugates, could you please indicate what the percentage of your programs is where such

antibody drug conjugates are developed, let's say at early stage before completing clinical development?

**Simon Moroney:** I honestly don't know the numbers to tell you the truth, but there are programs in earlier stages so before the clinic that are ADCs but I don't recall the exact number. And because they're really early stage programs, discovery or pre-clinic, we don't specific exactly what those programs look like.

**Olav Zilian:** And what is your view on the trend with respect to that technology? Is that trend stable or is that winning more interest among the pharmaceutical partners?

**Simon Moroney:** Yes, there's definitely interest on the back of the T-DM1 data's from ImmunoGen and Genentech and on the back of the SGN-35 approval for Seattle Genetics, there is no question that pharma is very interested in this format in general. And I would expect accordingly that there will be a pick up in the number of ADC programs that you see in the entire industry.

**Olav Zilian:** So then also programs picked up by partners of which you have not yet heard like Novartis possibly?

**Simon Moroney:** Well, as you know Novartis has a big collaboration with ImmunoGen which they entered I think a year or so ago now, under which Novartis has access to the ImmunoGen ADC technology for a, I think, quite a substantial number of targets. If you put two and two together you can probably guess where the antibodies for those programs may come from. So that's just one example which is in the public domain. And I am sure there are other pharmaceutical companies that are also pursuing this format maybe using either the ImmunoGen or the Seattle Genetics or even other technologies outside of those two.

**Olav Zilian:** Okay, thanks so much.

**Mick Cooper, Edison Investment Research:** One final one, should we expect another significant collaboration like the one that you announced last year with Pfizer with the Slonomics technology this year?

**Simon Moroney:** Mick, we don't give any -- we don't make any predictions or projections in advance about when we may do deals or with whom or in what volume that's simply standard practice that we don't predict those things in advance.

**Mick Cooper:** Okay.

**Martin Possienke, Equinet Bank:** Yes, hello, good afternoon, everybody. Sorry I missed the beginning of the call so maybe you discussed that already, but if I remember correctly in previous calls you spoke about double-digit revenue growth potential for the Group as a whole. Is this still true?

**Simon Moroney:** So, we don't give guidance prior to the year actually arriving, so that means we'll issue the guidance for next year early next year.

**Martin Possienke:** Sure. I think that was more a general remark over a couple of years or so.

**Simon Moroney:** Yes. I think the thing to really focus in on here is “what are the top priorities for us”. The main priority for us is to create the conditions under which we can sustain even greater growth than we've shown over the last several years. And the best way for us to do that is to maintain our profitability which is an absolute commitment, and secondly to be able to invest as much as we possibly can in proprietary R&D. There are -- as we look ahead there are always short-term decisions that we could make in the interest of the short term, and which may compromise the longer term. For example, we may say okay, in the interest of short-term revenue growth we could partner our proprietary programs sooner rather than later. That would be something I am sure we could do. However, we think it makes much more sense for us as a company to focus on how best to build longer-term value. And in that case we are convinced that it makes more sense to take those programs to clinical proof of concept and then to look to partner them. So there are always trade-offs as we look to short term versus longer term. But the key focus for us is to really focus on long-term value creation more so than taking -- than worrying about certain short-term impacts.

**Martin Possienke:** Sure, I can understand that, but this can obviously create a difficult situation in a year where -- when your revenues are, say, around EUR 80 m to EUR 90 m. Would you be willing in such a situation to lower your R&D spend by something like EUR 20m? And imagine this would be in -- this would happen in 2012, can you really lower your R&D spend by such an amount?

**Simon Moroney:** Yes. That's a hypothetical question, and I think at this stage we don't want to get into speculation. I think a key point, and we mentioned that, Jens mentioned that on the call, is that the R&D spend is not a one-way track, okay? A lot of the R&D investment that we make is in external service providers, particularly contract manufacturing for example. That's something that's expensive. It's a big ticket item. It's externalized. It doesn't represent bricks and mortar and fixed headcount here internally. And that can go in both directions extremely quickly. We've done a lot of the contract manufacturing we need for the three clinical programs we have, which means that that particular item will go down next year. So the -- I think that's really the key point here that as you look at our R&D spend that you shouldn't expect that, that it will continue to track upwards and it may go substantially in fact downwards.

**Martin Possienke:** Okay. So the main message is “profitability is key”.

**Simon Moroney:** Profitability is something we are very committed to. It's an important part of the MorphoSys model. We are absolutely wedded to that. And the other thing again is to maximize the value creation through investing in the proprietary pipeline. And all of us on this call, I think, understand this industry well enough to know that real value is created by biotech companies through product development. And that's what we are focused on.

**Martin Possienke:** Okay, perfect. Thank you.

**Gary Waanders, Nomura Code:** Hi there, just a simple question. Just trying to follow on cash and where you think you might end the year. I noticed your cash balance has increased by roughly EUR 3 million since the end of H1, despite a loss of EUR 3 million. That delta there is potentially in deferred revenues and the movements there, but could you outline how you think

that might move at the end of the year given that you don't expect any new clinical entrants and the associated milestones. Thank you.

**Jens Holstein:** Yes, hi Gary. Well, we've never given guidance on the cash position and we wouldn't like to do that. The cash position is there for us to be a war chest for acquisitions, as we did it with Sloning and as we in-licensed the Xencor compound last year. So we haven't done any guidance on the cash position in the past. What you could take home always was that the operating profit and the cash flow development was somehow in a similar ballpark. They were running more or less parallel. There are some hiccups here and there, you have sometimes a higher operating profit and some movements on the cash positions like tax payments and things like this. So that is something we certainly will have to take into account in the future, which we haven't paid, for example, in the past. But I wouldn't like to give you any detailed number on the cash position. And we've never done that and I wouldn't like to start with it.

**Gary Waanders:** No time like the present, but thanks anyway.

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

We'd like to close by reminding you of the key messages to take away from the call. First, our proprietary pipeline is progressing well with now a third antibody entering clinical study. We're on track with all of our programs, and by year-end we will have a total of five proprietary clinical studies ongoing, as planned. Second, the partnered pipeline also continues to develop well. Overall, our entire pipeline comprises more programs, 78, and more phase 2 programs, 7, than ever before. We're nearing the point at which we will see clinical data from several of these studies.

#### **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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