



## **MorphoSys AG – Q3 2008 Conference Call Text**

October 30, 2008

*The spoken word shall prevail*

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

Good afternoon and welcome, this is Claudia Gutjahr-Löser, Head of Corporate Communications & IR of MorphoSys. With me is Simon Moroney, our CEO, and Dave Lemus, our CFO.

First, we would like to welcome you to our Q3 conference call and thank you for participating. During the call, we would like to talk about the Company's financial results for the first nine months of 2008. Simon will begin by giving you an overview of the third quarter. Then Dave will review the financial results for the first nine months of 2008. Afterwards, we will open the call to your questions.

Before I start, I want to remind you that during this conference 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; also from me, a warm welcome to today's call.

While the previous quarter was a turbulent one for the world's capital markets, MorphoSys's business remained well on track. The Company is well financed with a strong cash balance and significant cash flows – sustainably supported by the Novartis deal. MorphoSys therefore is not only well positioned to weather the current adverse economic climate but enjoys a high degree of financial and strategic freedom, and remains committed to value creation through targeted, and increasing, R&D investments.

My report of the third quarter will be in three parts – I will cover first our partnered therapeutic business, second our proprietary pipeline, and third our research antibodies segment AbD.

Starting then with our partnered therapeutic activities, we continue to make very good progress in this, our core business. Our largest partnership, that with Novartis, is progressing well. The published progress during the quarter, and very much the tip of the iceberg of our collaboration, was Novartis's announcement that BHQ880, the most advanced program, will shortly enter a Phase I/II clinical trial. BHQ880 is a first-in-class, fully human, anti-DKK-1 neutralizing antibody designed to restore the balance between bone formation and degradation which is often disrupted in multiple myeloma patients. According to Novartis, preclinical studies support the hypothesis that BHQ880 promotes bone formation and thereby inhibits tumor-induced osteolytic disease. The program has an attractive track record so far, at our end being completed and handed over to Novartis within 11 months and subsequently advanced into clinical trials by Novartis in an additional two years. Elsewhere in this collaboration, the number of active programs continues to increase as planned when we entered the expanded deal in December of last year. We hope to say more about individual programs as they progress into clinical trials.

During Q3, we made three announcements regarding our other collaborations. In July, both Boehringer Ingelheim and Astellas exercised pre-existing options to use our proprietary RapMAT technology. You will recall that RapMAT is a recent technological development here at MorphoSys, which enables much more rapid optimization of antibody properties, particularly their affinity. We have found that RapMAT can reduce the time to an optimized drug candidate by roughly 5 months on average. The technology is robust, and we expect it to lead to further increases in productivity at BI and Astellas.

At the end of the quarter, Shionogi elected to extend their research collaboration with us. Under the agreement, Shionogi secures access to our HuCAL GOLD technology for research purposes for a further three years.

The announcements of these agreements with Boehringer Ingelheim, Astellas and Shionogi once again underline an important fact of our collaboration with Novartis – that its structure is not such as to make it impossible or even undesirable for our other partners to continue working with us.

Overall, our partnered pipeline now comprises 55 active therapeutic antibody projects, an increase of 5 from the end of 2007. We now count three active programs in clinical trials. By only counting active programs, we exclude the GPC program 1D09C3. We are in discussions with GPC regarding how this program is best advanced. In addition, there are currently 29 programs in pre-clinic, and 23 in discovery. Noteworthy is the increase in the number of pre-clinical programs, which is up by 6 in comparison to year-end 2007, since this is the source of the next wave of clinical candidates. At the beginning of this year we predicted that 1 or 2 new INDs could be filed by partners before year-end. Today we can confirm that we expect still one IND this year.

I'm sure you're all aware that our partnered therapeutic antibody business is both a source of near-term revenues as well as a significant driver of long-term value for MorphoSys. The near-term revenues comprise technology license payments and R&D funding. The longer-term value creation derives from the products that are being developed – as they progress they generate milestone payments and when they reach the market, royalties. The status of the partnered pipeline is therefore an important metric for MorphoSys's value proposition. We'd like to take this opportunity to project how that partnered pipeline may develop over the coming months. We currently have in a best case scenario visibility on up to six new programs which could enter the clinic during 2009. To be precise, six partner programs that are currently in pre-clinic have timelines that would see them enter the clinic during 2009, providing that their development continues according to plan. If this indeed transpires, by the end of next year, our partnered clinical pipeline could comprise ten programs, of which three could be in Phase II. I want to emphasize that these numbers do not take attrition into account, and for planning purposes we therefore adopt a somewhat more conservative projection. But we did want to give you a picture of the near-term potential in the partnered business.

In the longer term, based now on standard industry attrition rates for the development of therapeutic antibodies, we can confirm a number that was communicated earlier this year, namely that from our current partnered pipeline plus from the already committed programs, some 17 HuCAL antibodies could make it to the market. These numbers show that the partnered discovery business is in excellent shape today, and is promising to be a very lucrative value driver for the future of the company.

I'd like to turn now to our proprietary pipeline. The MOR103 Phase I study continues according to plan. All dosing has been completed and we are currently in the follow-up and analysis stage of the study. We were in fact able to add two additional cohorts. The reason for this was that the

early cohorts revealed no safety or tolerability issues, and we therefore took the chance to add two higher dosed groups. This of course made the Phase I study longer than originally planned, with the result that final reporting will probably fall into Q2 of next year rather than Q1 as originally communicated. It also means that certain other development activities, including for example some additional manufacturing of clinical material, have been pushed from this year into next.

We are convinced that adding the two higher dose cohorts was the right thing to do as it increases the flexibility we have to design meaningful Phase II trials. A side-effect is that the postponement of some activities contributes to a reduction in R&D expenditure this year, which in turn has contributed to the increased operating profit guidance that we communicated today. I want to emphasize that we are talking about a postponement of our R&D expenses – the costs are simply pushed from this year into next.

Although our prime focus is rheumatoid arthritis, we believe the MOR103 antibody also has potential in other diseases. We are therefore currently conducting pre-clinical investigations in models of respiratory diseases and multiple sclerosis. The outcome of these experiments will guide our decision on whether or not to pursue Phase II development of MOR103 in indications beyond rheumatoid arthritis.

During the quarter some of our data on the MOR103 antibody were published in the journal *Molecular Immunology*. Of particular note is the extraordinarily high affinity of the antibody for its target, human GM-CSF. This, we believe, may turn out to be a major advantage for a resulting drug, both in terms of efficacy as well as dosage, both of which are important factors in a drug for chronic disease.

As previously announced, we will release the pre-clinical data we have generated in this program at the Human Antibodies & Hybridomas conference in New York on November 13.

Regarding MOR202, there is little new to report at this stage – the program continues according to plan.

Last but not least in this section, we announced during the quarter that we had exercised our first option on a co-development program with Novartis. Recall that our recent agreement with them provides for us to elect to co-develop a number of programs. The forthcoming stages of the work in this first program will be funded by Novartis, until such time as a development candidate moves into formal development, at which stage we will start to share costs. You will also recall that we have the ability to decide what proportion of the development costs we carry, and are then entitled to the same share of profits on a resulting drug. Although this is a joint program, our participation clearly goes well beyond those in our standard partnered discovery business and therefore we include this and subsequent co-development programs under the heading of proprietary pipeline.

The third and last part of my review will cover the AbD research products segment of our business. During the quarter, we announced that the first HuCAL antibodies in diagnostic kits have reached the market. The products concerned are two autoimmune detection kits marketed by Phadia, the Swedish diagnostics company, and the HuCAL antibodies serve as controls or standards for calibrating the detection of certain analytes. Due to the fact that the antibodies are recombinant, the reproducibility of the tests is substantially enhanced compared to the alternative, which relied on anti-sera isolated from patients. This is an area where we see increasing opportunities for HuCAL, as a recombinant antibody technology.

The unit is now consistently in profit, despite the market for research reagents, which is heavily influenced by government funding, continuing to be a challenging one. Currency effects also continue to be against us, although we are seeing some improvement in the exchange rate against the dollar, the currency in which most of our revenue is generated. At constant exchange rates, revenue development would have been approximately flat compared to last year. Nonetheless, top line development was disappointing in this quarter. Notwithstanding this, we remain confident that the unit will make the all-important transition to overall profitability this year, with an operating profit margin of 5% to 10%.

That concludes my review of the quarter. I'd now like to hand over to Dave for the financial review.

## **Mr. Dave Lemus, CFO, MorphoSys AG**

Thank you, Simon.

Let me start the financial review with revenues.

### **Operating Revenues**

In the first nine months of 2008, Group revenues increased by 21% to €53.3 million compared to last year's €44.1 million. This increase is mainly due to higher levels of Therapeutic Antibodies segment revenues. Using constant foreign exchange rates at the average rate for 2007, Group revenues would have amounted to €54.6 million.

Revenues of the therapeutic segment increased to a total of €39.9 million, including success-based payments in the amount of €7.3 million.

Revenues of the AbD segment decreased in the nine months by 10% to €13.4 million. The main reasons for the decline in sales included adverse foreign exchange effects, and weaker than expected sales.

### **Operating Expenses**

For the first nine months of 2008, total operating expenses, which include stock-based compensation, increased approximately by 3% to €38.2 million.

### **Research and Development Expenses**

Expenses for R&D increased by €2.6 million to €18.3 million. This was mainly due to higher personnel costs in the Therapeutic Antibodies segment, increases in proprietary drug development and partnered activities and increased costs in connection with in-licensed patents from Dyax in the prior year.

In the first nine months of 2008, expense for proprietary product and technology development amounted to €3.6 million and €0.4 million, respectively, compared to €3.1 million and €0.9 million in the same period of the previous year. The reason for the lower than anticipated R&D spend was mainly a shift in developmental expenses from the current year to future years, as well as lower actual expenses than planned.

### **Sales, General and Administrative Expenses**

Sales, general and administrative expenses decreased slightly by €0.9 million to €14.6 million. This decrease resulted mainly from lower costs in the AbD segment and lower legal costs.

## **Operating Profit**

Group operating profit amounted to € 15.1 million in the first nine months of 2008 compared to an operating profit of € 6.9 million for the same period of 2007. The AbD segment continued to show a financial operating profit of € 0.3 million on a segment basis.

In the first nine months of 2008, net income more than doubled to € 11.8 million. The diluted net profit per share for the nine months amounted to € 1.58 compared to € 0.68 in the same period of the previous year.

## **Liquidity / Cash Flows / Balance Sheet**

On September 30, 2008, MorphoSys liquid funds comprised € 127.3 million compared to € 106.9 million on December 31, 2007. Cash flows from operations in the first nine months of 2008 amounted to € 18.7 million, compared to € 6.5 million in the same period of 2007.

## **Outlook**

As is typical during these conference calls, we would like to take the opportunity to update our financial guidance.

We continue to believe we are on track to achieve our revenue targets, although we would take the occasion to slightly narrow our revenue range to € 73 – € 76 million, and where we end up in that range depends largely on the level of revenue milestone payments achieved from partnered programs on the therapeutic side of our business in the 4<sup>th</sup> quarter. On the AbD side of our business, we expect revenues now to be closer to € 19 million, rather than our previous estimate of € 20 million. Adverse currency effects and difficult markets were the main reason for our downwards sales revision. That being said, we still are striving to hit this year's original goal for an operating profit margin of 5% - 10% in the AbD segment.

We expect the year's operating profit to be significantly higher than originally expected, mainly as a result of lower than anticipated R&D expenses. As a result of shifts in R&D costs into next and future years, and related downwards revised cost estimates for these expenses, we now anticipate expenses for proprietary drug and technology development in the amount of € 9 million for the full year, down from our original estimate of € 13 million. This would result in year-end operating profits of up to € 15 million to € 16 million, compared to our original estimate of € 9 million to € 11 million.

That concludes our financial analysis for the first nine months of 2008. I hand back now to Claudia for the Q&A session.

## **Question & Answer Session:**

**Operator:** The first question is from Mr. Peter Christian of Sal. Oppenheim. Please go ahead, Sir.

**Dr. Christian Peter, Sal. Oppenheim:** Yes, good afternoon, ladies and gentlemen, one very brief question to start with. Simon, you mentioned that attrition-adjusted 17 HuCAL antibodies could make it to the market. Now, does that include the Novartis partnership as well, or excluding Novartis? And my second question, if I may, goes to Dave. I see that you remain quite ambitious for the AbD segment in revenue-wise, so if you could give us some color where your optimism comes from that you will add about €6 million in additional revenues in the fourth quarter. Thank you.

**Dr. Simon Moroney:** Hi Peter, so let me start with the first part of that question. Indeed this projection of 17 HuCAL products that could make it to market indeed includes not only those programs that are in development at the moment, so 55, extrapolating forwards from those. But it also includes the programs that we will start with Novartis and others in the years ahead. And if you add all of those existing and future programs together, apply standard industry probabilities for successful development to that number, you can project the number of 17. This is not a new number. This is a number we actually presented at the year-end results conference back in February. That if you look back at the presentation there, you can see how the number was derived. But as I said, it basically projects the total yield that we think is derived from the partnered discovery side of the business.

**Dr. Christian Peter:** Okay, thank you.

**Dave Lemus:** Okay, hi Christian, to answer your question regarding the optimism of our Q4 AbD sales forecast, it is a valid point that we do expect a higher level of sales in the fourth quarter, roughly to hit the €19 million target, we'd have to turn over €5.7 million in the final quarter which is approximately €1 million higher than we have done this year in the highest quarter that we've done in terms of sales. That being said, we think we have some favorable tailwinds behind us. One of which is that OEM sales, we feel, have a pipeline which makes us optimistic in terms of hitting that goal and of course, OEM sales are very bulky but we do feel good that we should be able to ramp up those OEM sales in the fourth quarter. The other thing that we feel is a nice tailwind behind us for the fourth quarter is that the currency affects which have been adverse to us during the year have in fact turned. And we feel that those two things should be able to help us to achieve a higher level of revenue in that fourth quarter.

**Dr. Christian Peter:** All right, thanks a lot.

**Operator:** The next question is from Ms. Cornelia Thomas of WestLB, please go ahead.

**Dr. Cornelia Thomas, WestLB:** Hello, good afternoon, thanks for taking my question. I've actually got a number of questions on your financials. One of them was already asked regarding the AbD segment. The other one is you're now guiding for EBIT of €15 million to €16 million in 2008. Now, you're already at €15.1 million in the third quarter so you're not expecting to have much in terms of EBIT in the fourth quarter, is that correct?

**Dave Lemus:** That's correct.

**Dr. Cornelia Thomas:** Okay, so you're expecting to increase spending this much over the fourth quarter?

**Dave Lemus:** Yes, and maybe I just quickly respond to that. If you strip out the proprietary product spend that we had published in our quarterly numbers throughout the year, you will see that our run rate was roughly €5.5 million per quarter on average throughout the year. Which basically then implies that the R&D will increase vis-à-vis that number by about €5.5 million to €6 million in the fourth quarter.

**Dr. Cornelia Thomas:** Okay, I see. All right, of the costs you're saving this year, that's been shifted into 2009, can you give us an idea to the percentage of the cost you are saving this year? Because your press release said that some of the cost savings were due to external costs not being as high as anticipated. So I'm assuming they're not going to be shifted.

**Dave Lemus:** I can't actually give you a number right off the top of my head, but I can say that the bulk of the savings that we are seeing this year are being shifted into next year and future years. So it's not just being shifted into 2009.

**Dr. Cornelia Thomas:** All right. And one last question regarding milestone payments in the fourth quarter, you're guiding for something like €4 million? Now, obviously, I know that milestones come whenever they come, but sort of looking back the first three quarters are tracking low on milestones, now in the third you've tracked €4.6 million. Just wondering how certain are you about the milestone payments in Q4 2008?

**Dave Lemus:** Of course we always make our best effort to be as certain as we can by making these forecasts and it is true that one event happening or not happening can significantly affect that result. And I think it's a fair comment to say that in assuming that €4 million, we would be rather at the lower end of our revenue guidance than at the higher end. So that being said, I think we have a fair degree of confidence in hitting that €4 million, whether or not we can actually outperform that is to be seen. You know that being said, I think in terms of our track record in previous years, we've been rather, I think, conservative as some analysts have acquaint us in terms of projecting those revenues. But of course in the final weeks of the year it becomes very difficult to project those things because often what will happen within big pharma is they realize

they have some budget left for the year and they decide to early trigger some milestones, as has been the case in previous years.

**Dr. Cornelia Thomas:** Okay, thank you very much.

**Dave Lemus:** To answer your question, we feel pretty confident.

**Operator:** The next question is from Mr. Daniel Wendorff of Commerzbank. Please go ahead, Sir.

**Daniel Wendorff, Commerzbank:** Yes, good afternoon, and maybe a follow-up question regarding your operating profit guidance. Even if I really push up on the R&D expense in the fourth quarter, and that would also mean that I would have to put in quite a high number for S,G&A costs in there so that I only get marginally profitable. So my question there would be what would the trigger for such a high cost? Also regarding your own R&D expense, you now assume probably to spend around €5 million on own R&D in the fourth quarter. What would that mainly be used for? So why is that such a high increase versus the last quarter? And last question, Simon you mentioned potentially six new programs and partners could enter the clinic in 2009. Could you give us already an idea about which indications we are talking about there? Thank you.

**Dave Lemus:** Okay, I'll handle the first part of that question. And perhaps there might have been a misunderstanding there, Daniel. In terms of our run rate for R&D, as I think I mentioned it in response to an earlier question, our run rate for each quarter has been roughly €5.5 million per year. And what I tried to explain a bit earlier was that we feel that run rate which is very much associated with the activities that we do on behalf of our partners, so our research that we do for the likes of Novartis and our other partners that our run rate is roughly €5.5 million. In addition to that in the fourth quarter, we expect to spend roughly €5 million additional to that which is mainly proprietary product spend. And as you can see, or as we've publicized in our report, in the third quarter we had roughly €4 million spent and that last quarter will imply that we'll have an additional spend of roughly €5 million to that in terms of proprietary product spend.

What triggers those expenses was, I think, another question you had? That's very much the result, I think, of three things. Number one, additional clinical trials that we've been doing for MOR103 as Simon alluded to, we decided to include two new cohorts. Additionally, we're starting now to spend some money in terms of manufacturing and setting up cell lines for MOR202, which I think tends to be more of a front-loaded expense than a back loaded in terms of development expense. And last but not least, we have also ramped up our own proprietary product efforts as it relates to brand new starts, which has not been separately identified on this call.

**Dr. Simon Moroney:** Daniel, coming to your question about the new programs that could enter the clinic next year, I want to emphasize that's a projection which doesn't include attrition of the six. If

you look at the split of indications that we're working in, in all of our collaborations across the 55 programs going on, it continues to be roughly half in oncology, roughly a quarter in inflammation and autoimmune diseases and the other quarter split between infectious diseases, musculoskeletal CNS and so on. And if you apply that same rough split to the six, you would get a rough idea of the kinds of indications of these compounds that could enter the clinic next year.

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

**Operator:** The next question is from Mr. Hanns Frohnmeyer of LBBW. Please go ahead, Sir.

**Dr. Hanns Frohnmeyer:** Hello, good afternoon, I have a couple of questions. Some of them are related to follow-ones, so maybe start with the MOR103 project: You mentioned that you will start the Phase 1b/2a trial in first half of 2009. Could you give us some ideas about the design of the trials, patient number, geographic regions and so on? And then on the second one, the AbD business, you said you are optimistic that you will get some additional OEM bulks in Q4. Is this also the reason why you expect these higher or increasing operating margins of 5% to 10% or do you have other reasons for this business? Thank you.

**Dr. Simon Moroney:** Okay, let me start, Hanns, with the MOR103 question. What I can tell you at this stage is that we're still working on finalizing the trial design. It will be a trial of rheumatoid arthritis patients. I can tell you it'll be a trial in Europe. It will involve a number of European countries. We haven't yet finalized the choice of countries. But we're looking at four different European countries. And I use the term Europe in a broader sense there, meaning that we're looking also through the East for the countries. And we're also currently evaluating the specific sites in those countries where the trials will be conducted. We're currently looking at a total patient number of somewhere around 100. But again, that's something that hasn't yet been finalized and will obviously be something that we will complete before the trial design is complete. So, I think, at this stage, this is basically all we can say. Roughly 100 patients spread across probably four countries throughout Europe.

**Dr. Hanns Frohnmeyer:** And are you looking more for long or short-term affects then?

**Dr. Simon Moroney:** Sorry, are we looking for the short term affects, did you say?

**Dr. Hanns Frohnmeyer:** Yes, on the efficacy level, yes.

**Dr. Simon Moroney:** The precise administration regime has not yet been finalized. But we certainly intend to include longer term follow up of those patients. Given that we would expect an antibody, a human antibody with a rather longer half life compared to obviously small molecules drugs, we would expect to have a longer-term affect. We'd certainly anticipate that a longer term follow up would be a part of the trial.

**Dr. Hanns Frohnmeyer:** Thanks.

**Dave Lemus:** With regard to your question, Hanns, on the AbD segment, your point is valid. We have made a profit of about roughly about 2.5% of sales in the AbD segment to date. And the question, if I understood it correctly, was how do we expect to increase that? Will that simply arise as a result of revenues? The answer is yes, partially, but that answer is also to be found in the fact that there is some discretionary spending in that unit that we've assumed in the first three quarters that we feel we could pull the plug on, so to speak, as the year goes on. As an example, we have accrued full bonuses in that segment which, of course, if these targets are not met would have to be downwardly revised and perhaps partially reversed in the fourth quarter.

**Dr. Hanns Frohnmeyer:** Okay, thanks, that helps.

**Operator:** We have a follow-up question from Mr. Daniel Wendorff of Commerzbank. Please go ahead, Sir.

**Daniel Wendorff:** Yes, hello again and thanks for taking this follow-up question. I'm sorry to bother you again with regards to the operating profit guidance. So I believe I quite understood now the metrics behind the expense line. I mean, I would have to almost double my S,G&A expense for Q4 in the model relative to three in order to achieve a very small profit, only in the fourth quarter operating profit. Could you give us a bit more light how that can be explained regarding the S,G&A expenses? And maybe regarding financials and what do you intend to do with that increasing amount of cash over the, let's say, next 12 to 24 months. Thank you.

**Dave Lemus:** Okay, Daniel, I'd like to help you. But I'm having difficulty doing that without seeing your model. What I can tell you is that no significant ramp up in S,G&A expense is planned in the fourth quarter. And to the extent that I can understand that, perhaps you might be able to call me afterwards and we can sort that out. Regarding the cash, yes, we do have more than €125 million worth of cash. We have that invested in the two largest banks in Germany. We feel, based on multiple reviews and continual reviews of the banks' security and their credit worthiness that we feel that these deposits which are essentially money market deposits which are immediately recallable. That these deposits and this cash are in very good hands and, given the current market circumstances, more or less as safe as it could presently be.

**Dr. Simon Moroney:** Perhaps just a follow on to that, so we certainly continue to intend to use that cash to drive growth in the business. As we've said in the past and we repeat that now, we're interested in acquisitions both on the AbD side of the business and also increasingly on the therapeutic antibody side of the business. And we believe that as the financial conditions get tougher, we believe that there could be actually more and more opportunities for acquisitions as perhaps other biotech companies get into increasingly financial difficulty. So we think that

opportunity should only increase for a company such as ourselves. I want to emphasize, though, that we see no need for the cash pile to drive operations. We have sufficient cash flow in the business, operating cash flow to drive our increased investment in R&D. And that's something that you should expect to see continue to increase. So we're committed to building the proprietary pipeline and we're committed to using the cash flow, the very stable cash flows that we have from the partnerships and Novartis, of course, are foremost amongst those to drive increasing levels of investment in R&D.

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

**Operator:** The next question is from Mr. Holger Blum of Deutsche Bank. Please go ahead.

**Holger Blum, Deutsche Bank:** Yes, hello, Holger Blum, Deutsche Bank. Just one question - it might be a bit premature - but maybe looking one year out, in terms of maybe your general target in balancing earnings growth versus pipeline spend. What's the current thinking about focus on bottom line growth versus building a bigger pipeline in a shorter period of time? How will you see your priorities developing compared to the past? Thank you.

**Dr. Simon Moroney:** I think what we can reaffirm today is something that we've said repeatedly in the past. And that is that we certainly don't see the Company going into loss. I think what we can't yet say exactly is what proportion of that cash flow will be put into proprietary investment. That is, what is the impact on the operating income line. I would encourage all of you actually to look at us from two perspectives. One is look at our top line. Our top line development will be, I think, a very good metric for the health of the Company and how well the business is going. So that's certainly one to pay attention to. And the other will be how the pipeline develops. And how we exactly balance that? How much of the revenue that we generate gets pumped into proprietary product development? We can't give you any guidance on this today, but I think those, more importantly than earnings per share, will be the metrics on which you should base the valuation of MorphoSys. Dave, do you want to add anything to that?

**Dave Lemus:** No, I think that was a very salient explanation, Simon. I have nothing further to add to that.

**Holger Blum:** That's fine, thank you.

**Operator:** There are no more questions at this time. I hand back now to Dr. Moroney for his closing remarks.

**Dr. Simon Moroney:** Thank you. To conclude the call, I'd like to remind you of the key take-home messages. First, the partnered discovery business continues to perform extremely well, and we

expect to see an increased number of HuCAL antibodies entering clinical trials and advancing into phase 2 trials over the coming months and years. Our proprietary programs are also on track, and were supplemented in Q3 by the first joint program with Novartis. Finally, the AbD segment is now consistently in profit, and on track to record a healthy profit for the full year.

**Dr. Claudia Gutjahr-Löser:** That concludes the call. You can reach us in the Munich office for the remainder of the day, if any of you would like to follow-up up with us directly. Thanks again for your participation and goodbye.

**Operator:** Ladies and Gentlemen, the Conference is now concluded. Thank you for joining and have a pleasant day. Good bye.

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