

TOP 20 PHARMA

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HEADCOUNT	78,604	
YEAR ESTABLISHED	1896	
PHARMA REVENUES*	\$21,998	+9%
TOTAL REVENUES*	\$38,486	+9%
NET INCOME	\$9,541	+35%
R&D BUDGET	\$6,995	+12%

* See note about revenues after Top Selling Drugs below

DRUGS APPROVED/LAUNCHED

Drug	Indication
actemra	rheumatoid arthritis (Japan)
herceptin	HER2-positive breast cancer (Japan)
avastin	first-line advanced kidney cancer (EU)
mircera	renal anemia
xeloda	advanced stomach cancer (EU)
pegasys plus	shortened, 16-week course in some
copegus	hepatitis C patients (EU)

DRUGS CANCELLED

Drug	Indication
six Phase I and four Phase II programs were terminated or reverted to R&D partners	

DRUGS PENDING APPROVAL

Drug	Indication
actemra	rheumatoid arthritis
xeloda	metastatic colorectal cancer (first line) combo, (second line) combo
avastin	renal cell carcinoma
antevas	subarachnoid hemorrhage (Japan)

DRUGS IN PHASE IIB AND BEYOND

Drug	Indication
mabthera / rituxan	rheumatoid arthritis, chronic lymphocytic leukemia (first line, relapsed), maintenance indolent NHL
actemra	systemic onset juvenile idiopathic arthritis
r1594	rheumatoid arthritis
r1594	Systemic lupus erythematosus
ocrelizumab	Systemic lupus erythematosus
cellcept	pemphigus vulgaris
pertuzumab	metastatic breast cancer HER2+
tarceva	NSCLC (first line maintenance and adjuvant)
tarceva + avastin	NSCLC first line maintenance, second line
xeloda	adjuvant CC combo oxaliplatin, adjuvant breast cancer

avastin	metastatic gastric cancer, adjuvant CC, ovarian cancer (first line), mbreast cancer (first line) combo non-taxanes, adjuvant NSCLC, adjuvant breast cancer HER2-, prostate cancer, pancreatic cancer
avastin + herceptin	HER2+ mbreast cancer (first line) combo
herceptin	metastatic gastric cancer
r1658	dyslipidemia
valcyte	cmv in transplantation
epogin	chemotherapy induced anemia
lucentis	retinal vein occlusion, diabetic macular edema
xolair	pediatric asthma
tasoglutide	type 2 diabetes

DRUGS COMING OFF PATENT

Drug	Indication
xenical	weight loss (2009)
kytril	prevention of nausea and vomiting associated with chemotherapy or radiation (2008)

TOP SELLING DRUGS

Drug	Indication	\$	(+/- %)
Herceptin*	breast cancer	\$2,761	45%
MabThera/Rituxan*	NHL	\$2,317	29%
NeoRecormon/Epogin	anemia	\$1,747	-2%
Tamiflu	influenza	\$1,739	-17%
CellCept	transplantation	\$1,678	14%
Pegasys/Copegus	hepatitis C	\$1,366	17%
Avastin*	oncology	\$1,129	82%
Xeloda	oncology	\$960	24%
Xenical	weight loss/ weight management	\$527	-5%

Account for 65% of total pharma sales, up from 63% in 2006.

* Drug revenues and sales figures for Roche do not include revenues for Genentech, which is 60% owned by Roche and with which it co-markets several major products. Revenues from Chugai, also 60% owned by Roche, are counted in Roche's results.

ROCHE CONTINUES TO BLAZE a singular trail in the pharma biz, posting strong results from its two (majority owned) strategic allies, Genentech and Chugai, while sticking to its philosophy that diagnostics and therapeutics are growing ever more intertwined.

The company gained a new chief executive officer in March 2008, with Severin Schwan replacing Franz Humer,

who retained his role as chairman of Roche Holdings. Mr. Schwan, who is only four years older than me, was previously the chief executive of Roche's Diagnostics unit. In that light, the company's lengthy pursuit of Ventana Medical Systems makes plenty of sense. Roche made an initial offer of \$3.0 billion (\$75/share) for the cancer diagnostics company in June 2007. The public back-and-forth got ugly as Ventana held out

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for a \$100/share offer. The companies eventually settled on \$89.50/share (\$3.4 billion, payable in cash) in February 2008.

When the deal was first proposed, Mr. Schwan remarked, "Our combined company will be uniquely positioned to develop companion diagnostics which enable the identification of patient responses to treatments, thereby offering more cost-efficient, differentiated and targeted medicines to patients." Given Roche's position in oncology drugs, which includes a stable of powerhouse antibodies, the Ventana deal may pay for itself many times over, if its diagnostics enable the company to develop fine-tuned cancer treatments.

Roche's cancer drugs continued to fuel company growth in 2007. Herceptin, MabThera/Rituxan and Avastin all posted huge gains last year, and label expansions are opening new areas for treatment. Avastin received approval in the EU to treat colon cancer, and got accelerated approval by the FDA to be added to chemotherapy for breast cancer.

The company also looks poised to expand its rheumatoid arthritis treatments with Actemra, a biologic picked up in the company's acquisition of Chugai. Actemra is already on the market in Japan and is pending approval in the U.S., with an advisory committee meeting scheduled for July 2008.

Still, biologics weren't Roche's only big products. The company's 2006 results were also boosted by huge government stockpiling of its flu treatment, Tamiflu. With those stockpiles filled and contracts winding down, Tamiflu's 2007 numbers dragged and 2008 isn't looking too snappy. However, all that ramped-up manufacturing capacity — remember when we were all going to die from H5N1 a few seasons ago? — isn't so easy to ramp down.

To help moderate the ebb-and-flow of Tamiflu demand,

Roche has undertaken a curious new program: the company is selling "reservations" of Tamiflu to U.S. corporations. According to Roche, a contract will guarantee delivery of a course of Tamiflu treatment within two days for each employee, at the prevailing wholesale price. The contract itself will cost \$6 per employee covered, and will be renewable annually. I have no idea how the company will record revenue from this setup, but I doubt it'll count toward Tamiflu sales directly.

ACQUISITION NEWS

Target: Piramed Ltd.

Price: \$160 million, plus milestones

Announced: April 2008

What they said: "The integration of Piramed's promising research and development reaffirms and further strengthens Roche's leadership in oncology."

—William M. Burns, CEO, Roche Pharmaceuticals

Target: Therapeutic Human Polyclonals, Inc.

Price: \$57 million

Announced: April 2007

IP Theft or Competition?

Roche may not be interested in following Swiss counterpart Novartis into the world of generics, but the company has invested a lot of time and money in Mircera, an erythropoietin stimulating agent (ESA) that the U.S. Patent and Trademark Office ruled is an infringement on several of Amgen's biologic patents. Mircera received FDA approval in November 2007, but a judge's injunction and the USPTO ruling in February 2008 put the brakes on Roche's plans for getting Mircera into the U.S. market. Roche launched Mircera in the EU in late 2007.

The courts may decide on a "fair" royalty rate and allow Mircera on the market, an action that Amgen considers tantamount to rewarding IP theft. Aranesp and Epogen, the infringed drugs, are having dosage and label problems (see Amgen's profile for more info), but the two combined for \$6.0 billion in 2007 sales for Amgen.

Unbroken

In a *Financial Times* article by Andrew Jack and Haig Simonian in July, Mr. Schwan sounded sanguine about the state of the pharma industry. He remarked, "I do wonder whether the pharma model is really broken. I fundamentally believe if you are able to come up with innovative medicines including diagnostics, there will be demand. [. . .] I don't see a need to diversify into other businesses. I'm not saying this is the wrong strategy but this is not our strategy."

A company with a couple of runaway bio-drugs (remember, the sales figures I quote *don't* include Genentech's reported sales of the products), Roche looks like it can walk the walk to back up Mr. Schwan's talk. ■

THE LOWE DOWN

NOW ROCHE IS A QUIET SHOP, at least compared to all the drama and fireworks going on in other parts of the industry. Must be because they're so Swiss or something. Years ago they had a reputation as a place that indulged every so often in — gasp! — mass layoffs, but now that the rest of the pharma world has caught up, they don't stand out, do they? Their portfolio looks pretty solid, and their pipeline, while not full of gigantic world-conquerors, is something that several other companies would be glad to have.

But one of the main reasons that they're so happy these days has been their tie-in with Genentech, and the main reason that's been so beneficial has been the huge success of Avastin. So you could argue that the whole difference has been one drug — but on the other hand, how many do you need? If torcetrapib had worked, Pfizer's outlook would be rather different, wouldn't it? Still, you'd do well to think of Roche as a hybrid part-biologics company, for some time to come.

—Derek Lowe