March 13, 2018

# FY2017 – Conference Call – Transcript

*The spoken word shall prevail.*

**Speaker: Alexandra Goller, Associate Director Corporate Communications & IR**

Good afternoon, good morning and welcome to our full year results conference call and webcast. My name is Alexandra Goller, Associate Director Corporate Communications & Investor Relations at MorphoSys.

**Slide 2: Today on the Call**

With me on the call today are Simon Moroney, our CEO, Jens Holstein, our CFO, and Malte Peters, our CDO.

**Slide 3: Safe Harbor**

Before we start, I would like 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 and development 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.

**Slide 4: Agenda**

Simon will start with a very brief review of the highlights of 2017 and will then handover to Malte who will present the most recent data from our L-MIND trial with MOR208 as well as the progress we have made with our other Proprietary Programs during the reporting year. Simon will then comment on the progress in our Partnered Discovery Segment. After that, Jens will review the financial results for 2017 and present our new financial guidance for 2018, before handing back to Simon for the operational outlook for 2018. The presentation will last about 30 minutes.

After the presentation, we will all be available for your questions. You will find the slide deck on our corporate website. I would now like to hand over to Simon Moroney.

**Speaker: Dr. Simon Moroney, CEO**

Thank you Alexandra, and also from me, a warm welcome to our financial results call for 2017.

**Slide 5: Highlights FY 2017**

It's a real pleasure to wrap up what was a great year for MorphoSys.

**Slide 6: Highlights FY 2017**

The year 2017 was marked by a number of events that highlight our maturing product pipeline and progress towards our goal of becoming a fully integrated biopharmaceutical company. The pipeline progress was complemented by excellent financial performance – we upgraded revenue and EBIT guidance during the year and finished well in line with the new estimates.

During the call, we'll recap some of the highlights of 2017, focusing on the most advanced programs, including Tremfya®, MOR202 and MOR106. But this morning we also published an update on MOR208 that was encouraging from both clinical and regulatory perspectives, and we'd like to start with that.

**Slide 7: Portfolio**

As a reminder, **MOR208** is our investigational Fc-enhanced CD19 antibody, the most advanced of our in-house programs.

**Slide 8: MOR208: L-MIND trial**

Center stage is our phase 2 open-label L-MIND study of MOR208 plus lenalidomide in relapsed or refractory DLBCL. The interim data from L-MIND last year formed the basis of the breakthrough therapy designation we were awarded by the FDA in October. The trial is in patients who have been treated with one to three prior regimens and who are ineligible for high-dose chemotherapy and autologous stem cell transplantation. This is an area of very high unmet medical need.

We're excited to provide an update from this trial and for that I'll hand over to Malte, who will explain the data in detail to you. Malte will also review the progress made in the other two most advanced proprietary programs, namely MOR202 and MOR106.

**Speaker: Dr. Malte Peters, CDO, MorphoSys AG**

Thank you Simon and also a warm welcome from my side. We are indeed excited about our MOR208 program.

L-MIND is a single arm, uncontrolled study in which we combine MOR208 with lenalidomide. The trial has enrolled patients who received one to three prior therapies, with at least one CD20 regimen and who were not eligible for either high dose chemotherapy or autologous stem cell transplantation.

**Slide 9: Latest Data at New Cut-off Date Dec. 12, 2017**

Enrollment of all 81 patients required by the study protocol is now complete. The latest data at the time of data cut-off on December 12, 2017, we reported this morning are based on 68 patients who were eligible for efficacy assessment by the investigators. We performed this data cut-off for a meeting with the FDA on the program, which took place earlier this year.

The characteristics of patients enrolled in the study are shown on page 9 of the presentation. The median age of patients was 72 years and patients had received a median of two prior lines of treatment before they were enrolled into our trial. Almost half of the patients were staged Ann Arbor grade III-IV, which means that they had advanced disease with spreading to multiple lymph nodes. Further, 37% of patients were refractory to rituximab and 40% of patients were refractory to the previous line of therapy.

So overall, these are patients in very poor condition, they are not able to receive aggressive or toxic treatments such as high-dose chemotherapy or autologous stem cell transplantation, and they are, therefore, also unlikely to be eligible for CAR-T therapy.

**Slide 10: Response To Treatment**

Slide 10 shows the preliminary efficacy data: The objective response rate is currently at 49%. The complete response rate is 31%, partial responses are seen in 18% of patients. For the 68 patients eligible for efficacy assessment, the median progression-free survival has not been reached yet, and the PFS rate at 12 months is 50.4%. This means that after one year, approximately half of all patients do not show a progression of the disease. We have received some questions regarding the PFS curve. So let me elaborate a bit about it. If you look at the confidence intervals – as depicted by the grayish color - in the ASH poster, and compare it with today's presentation, you can appreciate that the confidence interval is narrowing, indicating an increased maturity of the data. We are pleased about the fact that the new data cut-off confirms and corroborates the data, which were presented at ASH end of last year. In summary, the data demonstrate a high response rate and a long progression-free survival in this difficult to treat patient population. This is underscored when you look at the next slide.

**Slide 11: Duration of Response**

Slide 11 displays a so-called swimmer plot. Each line represents one individual patient. The arrowheads at the end indicate that the patient at the time of data cut-off is still on treatment. Patients stay on treatment for an extended period of time. Specifically, 29 out of 33 patients with a response (88%) are ongoing, 20 of whom have an ongoing complete response. The mean time to response was short with 1.8 months, and the mean time to experience a complete response was 3.6 months. You can see that a substantial number of patients stay on treatment for much longer than 1 year and some patients as long as around 20 months. You can also see that we have observed long-term responses in patients with primary refractory disease, which is very encouraging, as these patients are typically very difficult to treat. The median time of observation was 8.3 months, which is a reasonably long period of time and indicates that the data are maturing. Therefore, in summary, it is important to note that patients stay on treatment for a long time, they either respond and stay in remission, or show at least a stable disease.

**Slide 12: Safety Data**

Data observed to-date show that MOR208 is well tolerated in combination with lenalidomide in the L-MIND study. With regard to safety, we see consistent results compared to the data we reported at ASH 2017. No unexpected toxicities were observed for the treatment combination and no infusion-related reactions were reported for MOR208. The most frequent adverse events with a toxicity grading of 3 or higher were hematological toxicities, such as neutropenia or thrombocytopenia or febrile neutropenia, as well as pneumonia, observed in 36%, 12%, 7% and 7% of patients, respectively. We consider these favorable safety findings as important, in particular in the light of the elderly and frail patient population, in whom toxicities are not well tolerated. We are also quite encouraged about these safety data of MOR208 when put into perspective with clinical data from other experimental treatments in this patient population. Having said that, please remember that there are limitations when one compares data across different clinical trials.

Overall, we are pleased with the data we have seen so far. As said before, the trial is fully enrolled since last November and we look forward to continuing the analysis of maturing data from this trial.

**Slide 13: Clinical Development Plan**

Another important aspect of the L-MIND study is how it fits into our regulatory strategy. In particular, we need to understand how this trial could support a potential regulatory approval for MOR208. Supported by the breakthrough therapy designation that Simon mentioned, we have had very good interactions with the FDA including a very productive recent meeting. At this time, we are hoping to be able to submit data from the current L-MIND trial to the FDA as a basis for regulatory approval. Our goal is to achieve an accelerated approval based primarily on the L-MIND study.

Apart from L-MIND, we are currently investigating MOR208 in the same patient population in our phase 3 B-MIND trial. This is a head-to-head study investigating the efficacy of MOR208 plus bendamustine versus rituximab plus bendamustine. Rituximab plus bendamustine is one of the most commonly used regimens in the relapsed/refractory DLBCL setting. The primary endpoint of this study is progression-free survival, and the design of this trial could support registration of MOR208. The safety run-in part of the trial was completed in June 2017 and the Independent Data Monitoring Committee (IDMC) supported the continuation of the trial as per protocol and the transition into its pivotal phase 3 part. B-MIND is planned to enroll 330 adult patients worldwide and we are making excellent progress and are on track with respect to enrollment.

Based on support from investigators and cooperative groups in the U.S. and Europe, we are also currently developing plans to test MOR208 in front line DLBCL as well as in other B-cell malignancies, such as indolent lymphomas. This planning phase is currently ongoing and we expect to share some news about these activities in the second half of this year.

We are also evaluating MOR208 in our phase 2 COSMOS trial in chronic lymphocytic leukemia and small lymphocytic lymphoma. This exploratory trial is designed to evaluate the safety of MOR208 in combination with either idelalisib or venetoclax. The study enrolls patients for whom prior therapy with a BTK inhibitor such as ibrutinib was either unsuccessful or not

tolerated. We plan to present a preliminary analysis of this study later this year at scientific meetings.

**Slide 14: Proprietary Portfolio: MOR202**

Let me now switch to MOR202, our proprietary anti-CD38 antibody currently in development for the treatment of multiple myeloma.

In 2017 we made significant progress with MOR202. We presented data at the ASCO meeting in June 2017 from our phase 1/2a study of MOR202 with low-dose dexamethasone, either alone or in combination with pomalidomide or lenalidomide. In the interim analysis, we saw efficacy with long duration of responses of up to 19 months. Very importantly, we saw a safety profile with just 6% of patients showing infusion-related reactions, all of them were of grades 1 and 2 only. This results in a duration of the infusion of about 2 hours, and we have already tested considerably shorter infusion times of 30 minutes in our current study, which suggests a very convenient application for patients.

In November of last year, we entered a partnering deal with the Chinese company I-Mab Biopharma for MOR202. Under the terms of the license agreement, we received an upfront payment of 20 million U.S. dollars and we are eligible to receive milestone payments up to 100 million U.S. dollars as well as tiered, double-digit royalties on potential future sales. We are looking forward to supporting I-Mab in the further development of MOR202 and we expect them to start clinical trials later this year.

In I-Mab, we believe we have found an ideal partner for the further development of MOR202 in China. Their Head of R&D was centrally involved in the development of daratumumab in China, so we feel that the I-Mab leadership team has the ideal experience to develop MOR202 in that territory.

Recent data suggest that CD38 may function as a mechanism of resistance in non-small-cell lung cancer (NSCLC) patients who have become resistant to treatment with immuno-oncology compounds like nivolumab or pembrolizumab. To test this hypothesis, we are gearing up to start a small exploratory signal-seeking trial in this patient population later this year. We would add MOR202 to an immuno-oncology compound like nivolumab in patients who have become resistant to nivolumab alone. In case this combination would show clinical efficacy, this would represent upside potential for MOR202.

**Slide 15: Proprietary Portfolio: MOR106**

The next compound from our Proprietary Development segment where we have seen great progress is MOR106, our anti-IL-17C antibody, which we co-develop with Galapagos. Last year we completed a phase 1 study in healthy volunteers and patients suffering from atopic dermatitis. This is an area of major unmet medical need, which we expect to be transformed by biologic therapies, in the way other inflammatory indications such as psoriasis have been transformed in the last two decades. MOR106 is the first publicly-disclosed antibody against IL-17C in clinical trials and we believe to have discovered a unique mode of action, which is completely independent from those of other members of the IL-17 cytokine family.

Data from the phase 1 trial were reported in September of last year, and at the AAD 2018 Meeting in San Diego three weeks ago. The data indicate that MOR106 was generally well

tolerated in the study. In addition, we observed first signs of clinical activity in reducing the signs and symptoms of atopic dermatitis. At the highest dose level, 5 out of 6 patients reached an improvement of at least 50% of their atopic dermatitis symptoms, the so called EASI-50 score, after four weekly infusions of the antibody. We also observed that the effect of the antibody was durable up to three months after the last treatment.

This early evidence of clinical activity is very encouraging to us and supports proceeding into phase 2 clinical development. MOR106 has the potential to become first in a completely new treatment class, based on the therapeutic target.

With this, I would like to hand back to Simon.

**Slide 16: Partner Discovery Program: Tremfya® (Guselkumab)**

Thank you, Malte. I'll turn now to the highlights of our Partnered Discovery segment. Overall this segment continued to grow in number and also in maturity as programs move into later-stages of development. We are very proud of all of our long-standing collaborations which have produced so many programs based on our technology. There are too many programs to speak about here, so I'll focus in on just one highlight.

The most important event in this segment in 2017 was the approval of Janssen's Tremfya® and its subsequent market launch. Tremfya®, the tradename for the anti-IL-23 p19 subunit antibody guselkumab, is the first product based on our technology to have received regulatory approval. Janssen received FDA approval for the treatment of moderate-to-severe plaque psoriasis in the U.S. in July 2017 and, later in the year, also for Europe and Canada. Tremfya® shows excellent efficacy and also long-term activity, as Janssen reported recently. Moreover, the antibody is very convenient for patients, being self-administered subcutaneously once every 8 weeks.

For the first time in our history, we are receiving royalty revenues on sales of a product made using our technology. Based on Janssen's announced plans to develop Tremfya® more broadly in psoriasis as well as in psoriatic arthritis and Crohn's disease, we are optimistic that it could become a very large and successful drug.

**Slide 17: Pipeline**

Slide 17 gives you an up-to-date snapshot of our clinical pipeline. As you can see, Tremfya® is just one of many programs. One of our strengths as an organization is the breadth and depth of that pipeline. We see a number of programs which we believe have the potential to transform the treatment of the diseases they address. Overall, our pipeline comprised a record-high of 114 programs at year-end 2017, 28 of which were in clinical development, and with the first product launched. While the dark blue bars on the chart refer to our Partnered Discovery segment, the golden ones refer to our proprietary programs. Five out of the 28 clinical programs – so around 20% – are from our Proprietary Development segment.

That concludes the operational review, I will now hand over to Jens for his wrap-up of the financials.

**Slide 18: Financials FY 2017**

**Speaker: Jens Holstein, CFO of MorphoSys AG**

Thank you, Simon.

**Slide 19: Financial Results FY2017: Fully in Line With Guidance**

Ladies and Gentlemen, also from my side a warm welcome to all of you and thanks for your interest in the Company.

2017 was another very successful year for MorphoSys. We again achieved our financial goals and, most importantly, our share price increased by approx. 57% due to the positive progress of our development efforts. Just to remind you – we introduced our guidance in March last year and increased our financial goals end of November 2017 based on the MOR202 license agreement with I-Mab. Group revenues in 2017 came in at 66.8 million Euro a touch above the updated guidance which ranged from 63 to 66 million Euro.

Our Proprietary R&D expenses amounted to 99.1 million Euro and were also in line with the guided corridor of 96 to 100 million Euro.

EBIT reached minus 67.6 million Euro and thus we delivered also EBIT fully in line with our guidance of minus 66 to minus 71 million Euro.

**Slide 20: FY2017: Income Statement**

Please move on with me to slide 20 that illustrates our P&L statement. As said before, Group revenues amounted to 66.8 million Euro compared to 49.7 million Euro in 2016. The increase is mainly driven by the upfront payment of 20 million US dollar or 16.8 million Euro for the license agreement for MOR202 paid by I-Mab Biopharma. Thus, revenues in 2017 increased by approximately 34% over the previous year. Revenues include royalties on net sales of Tremfya® amounting to 1.9 million EUR for Q3 and Q4 of 2017. Following FDA approval in mid July 2017, Tremfya® was launched in the U.S. in Q3 2017. Approvals were also granted in Europe and Canada in November 2017, followed by launches in the respective territories. Due to currency effects, the Tremfya® royalty revenue was negatively impacted by 0.2 million EUR.

Operating expenses for the Group came in at 133.8 million Euro, exceeding last year's numbers by 22% (2016: 109.8 million Euro). This increase was planned and results from our intensified investments in our proprietary clinical compounds. Particularly the clinical development with our most advanced clinical compound MOR208 in 2017 in selected blood cancer indications resulted in an increase of our R&D spending. Total R&D expenses rose by 22% to 116.8 million Euro, versus 95.7 million Euro in 2016.

General and administrative expenses rose by 21% to 17.0 million Euro versus 14.1 million in 2016.

Earnings before interest and taxes came in at minus 67.6 million Euro compared to an EBIT of minus 59.9 million Euro in 2016.

In 2017, the consolidated net result amounted to minus 69.8 million Euro, after minus 60.4 million Euro in 2016. This translates into earnings per share of minus 2 Euros and 41 Cents in 2017, compared to minus 2 Euros and 28 Cents in 2016.

**Slide 21: FY2017: Segment Reporting**

Let's move to the segment reporting on page 21 of the presentation:

In our Proprietary Development segment, we focus on the research and clinical development of our own drug candidates in the fields of cancer and inflammation. In 2017, this segment recorded revenues of 17.6 million Euro. For 2016 we had reported 0.6 million Euro. The increase results from the aforementioned upfront payment by I-Mab Biopharma for the MOR202 license agreement for China, Hong Kong, Taiwan and Macao.

Expenses for proprietary R&D including technology development rose by 26% to 99.1 million Euro. Consequently, the segment EBIT came in at minus 81.3 million Euro compared to minus 77.6 million Euro in 2016.

In the Partnered Discovery segment, we apply our proprietary technology to discover new antibodies for third parties. We benefit from our partners' development advancements through R&D funding, licensing fees, success-based milestone payments and royalties. In 2017, revenues were 49.2 million Euro compared to 49.1 million Euro in 2016. Segment revenues comprised 41.9 million Euro in funded research and license fees, and 7.3 million Euro in success-based payments.

EBIT in the Partnered Discovery segment of 30.2 million Euro came in slightly below previous year's level of 31.0 million Euro.

**Slide 22: FY2017: Balance Sheet**

Let's move on to the balance sheet on slide 22. As of December 31, 2017, we recorded total assets of 415.4 million Euro. This represents a reduction of 48.2 million Euro compared to the end of the previous year.

At year-end 2017, we had a cash position of 312.2 million Euro compared to 359.5 million Euro as of December 31, 2016. Please remember, that our total liquidity position is reported under various positions in our balance sheet: cash and cash equivalents; available-for-sale financial assets; bonds, available-for-sale; current and non-current financial assets classified as loans & receivables.

**Slide 23: Financial Guidance FY2018 and Outlook**

I am now coming to the financial guidance for 2018 before I will pass back to Simon for the strategic and operational outlook.

**Slide 24: Financial Guidance FY2018**

2018 will be the first year where royalties will represent the lion's share of our income. After the market approval of Tremfya® last year, we were pleased to start collecting first royalties on

Tremfya® revenues in Q3 2017. For 2018, we expect a growing royalty stream from Tremfya®. Thus, 2018 will be a very important year in our history where we continue to transition towards a company with an income statement that generates revenues from products rather than services. Initially, however, our royalty income will not fully compensate the revenues from the former Novartis collaboration, but those royalties have the potential to grow year over year and we expect them to outgrow the Novartis contract in the years ahead.

At the same time, our most advanced proprietary compound MOR208 has entered the final stage of its clinical development. With MOR208, we are starting to transition into the phase of becoming a fully integrated commercial biopharmaceutical company. In 2018, we expect to generate Group revenues from 20 to 25 million Euro. This assumption on revenues includes royalties on Tremfya® sales in a range of 12 to 17 million Euro – based on a constant US currency exchange rate.

Just to be very clear, our guidance does not include revenues from potential future partnerships, licensing agreements or milestone payments for MOR103 that could occur in the course of 2018. Effects from potential in-licensing or co-development deals for new development candidates are not included in the guidance either. This is important to understand as partnering deals would very likely have a significant positive impact on our financial results. As a reminder, our revenue guidance no longer includes revenues from the Novartis collaboration as the contract ended in November 2017.

R&D expenses for proprietary drug development in 2018 are anticipated in a corridor of 95 to 105 million Euro. We also intend to invest significantly in setting up a commercial structure. Therefore, SG&A expenses will grow mainly caused by our plans for commercialization. As a consequence, we expect earnings before interest and taxes of minus 110 to minus 120 million Euro.

Finally, I would like to say that we are very excited about the company's prospects and that we are confident in successfully executing the tasks in front of us.

Before I conclude my section, I would like to take the opportunity to let you know that Anke Linnartz, our Head of Corporate Communications and Investor Relations will leave the Company. We would like to thank Anke for her contributions. Her team led by Alexandra Goller and Jochen Orlowski have done a tremendous job in recent years and will continue to manage Corporate Communications & Investor Relations with support, by our former Head of IR, Dr. Claudia Gutjahr-Löser. Claudia will spend a few days per week with us until a permanent replacement for Anke as Head of IR is in place and will represent MorphoSys on conferences and roadshows, specifically in the U.S., where her scientific background is very valuable for us. After around a year and a bit, we welcome Claudia back to support the MorphoSys team.

With this, I would like to end my part and hand back to Simon.

**Speaker: Dr. Simon Moroney, CEO**

Thank you, Jens.

**Slide 25: Expected Newsflow 2018 – Proprietary Development Segment**

To conclude, I'll summarize what operational progress you should expect from us throughout the year 2018, looking at each program in turn.

First, **MOR208:** this will be our top priority in 2018.

We will continue the analysis of maturing data from the 81 patients enrolled in the L-MIND study and continue the ongoing discussion with the FDA regarding an expedited regulatory submission. Overall, our strategy for MOR208 is, first, to secure regulatory approval in r/r DLBCL as soon as possible.

We plan to discuss a rolling BLA submission with the FDA – which is possible for programs with breakthrough therapy designation such as MOR208. We intend to build commercial capabilities in connection with the potential future approval of MOR208 and this process is ongoing. Our preferred option at this stage is to retain either sole or co-promotion rights in the United States and to partner elsewhere in order to execute our commercial strategy. At this stage we are working under the assumption that we will need to be ready to commercialize MOR208 starting in the first half of 2020.

MOR208 also has potential in other lines of DLBCL treatment and in other B-cell malignancies. We are therefore evaluating additional trials with the goal of growing a potential MOR208 franchise and making this promising agent available to as many patients as possible. A minor point perhaps, but we expect to have an approved INN name for MOR208 within the next few months.

For B-MIND, we will continue the current pivotal phase 3 part of the trial evaluating MOR208 plus bendamustine versus rituximab plus bendamustine in r/r DLBCL.

Regarding our COSMOS trial of MOR208 plus idelalisisb or venetoclax in CLL/SLL, we intend to complete recruitment of the study during this year and to present data at appropriate medical conferences in 2018.

Turning to **MOR202**, we expect to complete the phase 1/2a dose-escalation trial in r/r multiple myeloma, and to report data at an appropriate medical conference later this year.

Further, we expect I-Mab Biopharma to start the clinical development of MOR202 in multiple myeloma in China by the end of the year. We will continue to evaluate potential partnerships to develop MOR202 in multiple myeloma for other territories. In the event that we are unable to find a partner for MOR202, we do not anticipate that we will continue to develop MOR202 in multiple myeloma, in light of the competition in that indication. Separately, we plan to evaluate MOR202 in the solid tumor setting. As mentioned by Malte, this is based on pre-clinical findings with CD38 antibodies in solid cancers. We intend to commence a phase 1/2 clinical trial of MOR202 in non-small-cell lung cancer (NSCLC) during the course of this year.

For **MOR106**, we expect to start a phase 2 trial in atopic dermatitis together with our partner Galapagos in the second quarter of this year.

For **MOR103/GSK3196165**, a HuCAL antibody out-licensed to GSK, a phase 2b study of MOR103 in moderate-to-severe rheumatoid arthritis has been completed according to clinicaltrials.gov, and we expect data from this study this year. We also expect GSK to report data from a phase 2a study of MOR103 in inflammatory hand osteoarthritis, which was also completed in late 2017.

For our lanthipeptide **MOR107**, a phase 1 study in healthy volunteers was completed in 2017. Based on initial anti-tumor data observed in pre-clinical studies, we will continue looking at

MOR107 with a focus on oncology to inform a decision regarding potential further clinical testing.

**Slide 26: Expected Newsflow 2018 - Partnered Discovery Segment**

Turning to our Partnered Discovery segment, up to 31 different clinical trials being run by our partners are due for primary completion this year. As always, we have no control over what our partners communicate, but there is obviously the potential for a lot of data relevant to our pipeline. Here, we will highlight just two programs with expected news-flow in 2018.

Janssen is currently investigating **Tremfya®** (guselkumab) in phase 3 trials in psoriasis and in psoriatic arthritis and plans to develop the product in Crohn's disease. Several phase 3 trials in psoriasis are scheduled for primary completion in 2018, including a very interesting head-to-head study comparing Tremfya® to secukinumab (Cosentyx®) in plaque psoriasis. Janssen also plans to start a new phase 3 trial with Tremfya® in pediatric participants suffering from plaque psoriasis.

For **gantenerumab,** we expect Roche to initiate a new pivotal phase 3 program in patients with prodromal and mild Alzheimer's disease. Roche plans to initiate two new phase 3 studies, called GRADUATE-1 and GRADUATE-2, later this year. The start of these trials shows our partner's ongoing commitment to Alzheimer's disease and specifically to the amyloid hypothesis.
In conclusion, MorphoSys stands at a pivotal position in the company's development. Last year's approval of Tremfya® was the event that has started the transformation of our income statement to one based on product, rather than service revenue. We expect this change to accelerate in the years ahead. The next major step that we are actively planning for is the addition of our own product revenue on top of those royalties. This will happen when MOR208 reaches the market. Not surprisingly, this is a major focus for the company, and a lot of investment and work is going into its preparation.

Notwithstanding the exciting developments amongst the late-stage programs, we continue to be very bullish about the sheer depth of our pipeline. We can foresee a future in which multiple products from our partners are on the market, providing a lucrative royalty stream which will underpin our in-house developments. We intend to continue to invest strongly in the further development of our proprietary product candidates in order to continue to create value for the Company and its stakeholders. MOR208 is our flagship program, but there's a lot of potential behind that lead program. We're very optimistic about the company's prospects.

**Alexandra Goller**: Thank you Simon. We'd now like to open the call to your questions.

**Slide 27: Q&A**

***Question and Answer Session***

**Cinney Zhang, Bloomberg Intelligence**

I have two quick questions. First on L-MIND and MOR208, when do you expect to have the mature L-MIND data from 81 patients? Also you mentioned that you are planning to co-

commercialize MOR208 in the U.S. with a partner. Did I hear it right? Could you please elaborate more on that?

And second question is on Roche. When Roche initiates the two trials in Alzheimer's, will that trigger a milestone payment. Thank you.

**Malte Peters, MorphoSys AG**

Let me take the first part of your question - with respect to the maturity of the L-MIND's data referring to the 81 patients. We expect to have mature data from the 81 patients with respect to response rate and to a large proportion of progression-free survival by the end of 2018. Obviously, we will continue to collect data regarding overall survival and progression-free survival beyond this time point. But we believe that by the end of this year we will have a fairly mature data set.

**Simon Moroney, MorphoSys AG**

And let me take the second part of your first question regarding the co-commercialization in the U.S. At this stage our preference is to either solely or co-commercialize in the U.S. The co-commercialization option could for example be in the context of a significantly wider development program for MOR208 where we decide to go into a number of other settings, indications for example, and where we may choose to bring a partner on board to help us do that. So either as sole commercializer or perhaps co-commercialization, those are the two options that we are looking at currently for the U.S. And the final decision hasn't been taken as to which are those two tracks we would go down.

**Jens Holstein, MorphoSys AG**

And Cinney, let me take the second question regarding the milestone payments on the start of the two phase 3 trials for the Alzheimer compound Gantenerumab. We actually have received phase 3 milestone payments back when they started first time the Scarlet Road and the Marguerite Road trial and as a consequence, therefore, we wouldn't receive any and do not expect any additional milestone payments for the re-start of two new phase three trials for Gantenerumab.

**Cinney Zhang**, **Bloomberg Intelligence**

Okay. Thank you. Just a follow on MOR208. What about ex-U.S.? Are you also looking for a partner?

**Simon Moroney, MorphoSys AG**

Yeah. So at this stage, as I said, our commercial ambitions are focused on the U.S. Again depending on how development looks for the program as a whole, will determine how we chose to partner territories outside of the U.S. But a likely outcome is that we would indeed partner for the ex-U.S. territories.

**Gunnar Romer, Deutsche Bank**

So the first one would be on MOR208 again and the investments that you are planning. Can you help us understand how we should be thinking about the evolution here in terms of the investments assuming either of the two scenarios, but probably easier for you to comment at this point assuming sole commercialization in the current setting, so second-line DLBCL. And then, also in that context, would you expect any significant CapEx investments? So any color on that would also be appreciated.

And secondly, on the Tremfya royalties - is it fair to assume that the royalty rate as suggested by the numbers for 2017 is slightly below 5% somewhere in the region of 4%. Any comment around that would be helpful.

And then lastly on the cash outlook, Jens, for good order. If you can help us with the cash guidance for end of the year, that would be appreciated. Thank you.

**Jens Holstein, MorphoSys AG**

Yes, Gunnar. I will try to give the answer for the three questions that you have raised. I hope I got the first one right here. Regarding investments on MOR208: First of all, you have seen our guidance for R&D spent for 2018 being in the range for proprietary R&D of €95 million to €105 million, which is not far off of what we have reported for last year. That underpins the current development plan that we have in mind. It doesn't take into account any further sort of activities first line or something like this going forward.

That is, as I said, the lion's share. So lion's share means it's really the significant part. Please accept that at this stage we are not splitting it up for the various programs on how much we spend on the various programs. But as I said, it's based on our current development path.

Regarding the Tremfya royalty, unfortunately, I would like to give you some more guidance on where we stand with this but are unable due to the contractual obligations that we have versus Janssen, so you got to bear with us. At a certain point in time it is probably easier to calculate, at this point in time it's a bit tough, I have to admit it for you guys. Therefore, our intention was to give you some more light by indicating what sort of range of royalty we would anticipate for 2018, despite the fact that as you know, the product is not that long in the market yet, so around about maybe 5 months or so of last year. So it's a bit tough, I know, but we´ll try to help you with that guidance on those revenue lines.

Regarding the third one, on the cash amount for year-end, indeed, you are right we have established some sort of guidance to you guys on what we would expect. Our anticipation for year-end cash position is in the range of €205 million to €215 million.

**Gunnar Romer, Deutsche Bank**

Thank you. Maybe just a quick follow up or two, if I may. To phrase the question around the Tremfya royalties slightly differently. The range that you are providing, is that consistent with the consensus out there for Tremfya sales in 2018, i.e. is the midpoint reflecting that consensus or can you comment around what you have factored in here relative to Street expectations on Tremfya sales in your guidance.

And then on MOR208, Simon, if you can talk a little bit more around your strategy for further development in the first-line setting. For example, how far would you go on your own and when do you think partners are required?

**Jens Holstein, MorphoSys AG**

Okay. Maybe I start with the Tremfya royalty follow-up question. Gunnar, despite your attempt, I really, I have to say our hands are bound here and we are moving on thin ice. I think there are various sorts of ranges out there, of what sort of expectations are there in terms of revenues that can be generated by Janssen in 2018. So please bear with us. We should keep at this sort of line of information as we always did. As long as Janssen doesn't give us the opportunity to talk freely about it. So I am sorry, I can't give you some more information on that.

**Simon Moroney, MorphoSys AG**

And let me just start with the MOR208 and then I will hand over to Malte actually. So you mentioned first-line DLBCL. It is indeed something we are thinking about. We are getting a lot of inbound interest. I think it's fair to say on that and we do definitely see that as an opportunity and it's something that Malte and his team are currently evaluating. Do you want to say a few words to that?

**Malte Peters, Morphosys AG**

Yes. So that's perfectly true and it's a little early, I think, to give more precise details on potential design of the study. So the team is working very diligently talking to investigators, cooperative groups, as I mentioned in my earlier statement, regarding trial design. So we expect to have some more information regarding potential study designs for frontline studies in DLBCL and potentially other trials in indolent lymphomas in the second half of this year. And this would be a good moment then to understand the financial implications of these activities. It's a little early at this moment to understand precisely the size of the study and the duration which we would need to make these estimations.

**Gunnar Romer, Deutsche Bank**

But could you imagine to go ahead and start the development on your own or do you think -- the preferred option would be to have a partner before?

**Simon Moroney, MorphoSys AG**

No, we could imagine at this stage doing it on our own. We could. Subject to finalization of the plan, which means duration, number of patients, cost and so on. But our preliminary thinking is we could indeed do it on our own.

**Igor Kim, Oddo BHF**

I have got three questions from my side. First one, do you expect any further milestones payments from the partner projects? You just commented on Gantenerumab, so there is nothing to expect from Roche, but for the rest of the pipeline, is there something, what we could expect?

Second question is on MOR208. When can we expect the financial decision from FDA regarding the accelerated process for the approval and actual mature data from L-MIND trial, is it a prerequisite for FDA decision?

And the third question is regarding the court case with Janssen. Is there anything new that happened since nine months or could you probably update us on the status of the case. Thank you.

**Jens Holstein, MorphoSys AG**

Yes. Igor, thanks for your questions. Let me take the first one on the milestone payments. Of course we have the standard sort of milestone payments that we get in for the entering of a first clinical stage, phase 1, or entering phase 2 or entering phase 3. So there will be payments and they are included in the guidance as well as some FTE funding amounts out of our partners, for example with Merck or Leo Pharma. So that is included. What's not included are bigger milestone payments of greater magnitude for which we don't know if they will occur or not. So I have MOR103 in mind here. If data pans out to be very positive in rheumatoid arthritis or osteoarthritis of the hand and GSK is planning to enter a phase 3, we at this point in time do not know anything about the data and the quality of the data nor on the detailed timing plan

GSK is having to proceed. And as a consequence any payment out of that collaboration is not included in the guidance.

**Malte Peters, MorphoSys AG**

With respect to the L-MIND data, as I said before, we expect to have reasonably mature data available by the end of this year. This is primarily based on our assessment of response rate and to a large extent of progression-free survival. But it's also clear that we continue to analyze the data beyond this point to generate more mature data of progression-free survival and also overall survival.

With respect to when we anticipate an FDA position regarding the accelerated approval, this interaction with FDA based on breakthrough therapy designation is a process. That's a positive part of the breakthrough therapy process that FDA has a close collaboration with the sponsor. And we expect to continue to have a very positive and collaborative interaction with FDA. I would hope that we would be in the position to get more information out to you probably in the next year. But it's very difficult at this moment to name a precise time point where FDA will share a position regarding the accelerated approval.

**Simon Moroney, MorphoSys AG**

And Igor, let me take the last question regarding the lawsuit. There is really nothing, I think, new to say about that. We are in this very sort or procedural process which is typical of lawsuits in the U.S. There is a long process of depositions of both side gathering expert opinion and so on which will take place over the next months. Overall, we are still on track to a scheduled trial in February of next year. But at this stage I think that it's fair to say there is nothing new to communicate.

**Gary Waanders, Bryan Garnier**

I just had a couple of questions on MOR208, if I may. The first one is, if you achieve an accelerated or an expedited approval, how will that time with your existing investments? So if you do get an accelerated approval, will your investments had enough time to bid down and whatever structures you put behind that, enough time so that you could launch efficiently? Or would there still be some kind of a delay behind that launch?

I also had a question regarding the single fatality. You may have commented on this in the past, but in the MOR208 study - is there any further information on that fatality, please?

**Simon Moroney, MorphoSys AG**

Yes. Thanks, Gary. Let me start with the first part of that. So we are working hard and planning so that our readiness to commercialize is not the rate limiting step here. As I mentioned, we are thinking at this stage that commercialization will start in the first half of 2020 and that means two years from now, of course. And we are working very hard to have our commercial organization in place to either solely commercialize in the U.S. or perhaps to co-commercialize out in the U.S. by that time.

**Malte Peters, MorphoSys AG**

With regard to the grade five event or to the fatality that you referred to, which is shown on slide 12, this was a patient who died from a sudden cardiac death at home while the patient was on treatment with MOR208. So there was a temporal relationship between the death and treatment. However, the patient had previously diagnosed cardiac dysfunction and the

investigator concluded that there was no cause of relationship between the treatment and the death.

**Zoe Karamanoli, RBC**

Simon, you mentioned that if you do not find a partner for MOR202 for multiple myeloma, you will not pursue further development in-house. Yet today, you announced that you plan to move MOR202 in non-small cell lung cancer. I am wondering if you could explain the rationale on this, and will you continue development in-house in this indication even if you don't find a partner?

**Simon Moroney, MorphoSys AG**

Yes. Thanks for the question. Just to make is clear. What I hope we said was that if we are unable to find a partner for multiple myeloma, we will not continue development in that particular indication and that's simply a reflection that this is a competitive space and that as we have always said, we feel that the best way to exploit the opportunity in MM is together with a partner.

That said, there is a completely distinct opportunity, we believe, potentially in solid tumors. And so in any case independent of what happens in multiple myeloma, we plan to conduct a study in non-small cell lung cancer. And depending on the outcome of that study, we would go forward in that indication.

**Zoe Karamanoli, RBC**

Thank you. And is the intention then potentially to go in-house or find a partner for that indication?

**Simon Moroney, MorphoSys AG**

That remains to be seen. So the first step is to actually conduct this initial trial in non-small cell lung cancer and see what we get. We feel that if the data there is good and positive, then we could be sitting on a very major opportunity, which would be obviously be a nice position to be in. But that will be determined, of course, by the outcome of that study.

**Gunnar Romer, Deutsche Bank**

Thanks for taking my follow-ups. Firstly on MOR103, just a clarification. Would you be getting the next milestone based on the phase 2 data or would we need to see phase 3 start?

And then coming back on the investments required for the commercialization. I am not sure - I mean you commented on R&D, obviously. Can you comment a bit more in detail on the SG&A investments over the next few years and how they are going to ramp according to your plan.

And then on CapEx, also, Jens, I am not sure whether I missed that. So is there anything significant we should look for in terms of CapEx investments? Thanks.

**Jens Holstein, MorphoSys AG**

Yes. Thank you, Gunner. So on MOR103, we, again, as usual have a little bit tied hands on details. But I think it's standard practice, I think, that at least I can say that with the start of the phase 3 and the first patient being treated, then you get a milestone payment, not with the data or something like this, or the announcement of a phase 3. That's standard practice.

On R&D expenses and you mentioned R&D expenses, we gave you details but on the SG&A not. Yes, indeed, if you do the math you are absolutely right that you know there is an increase that you can recognize in the area of S,G&A. So in the past we only had really general and administrative expenses and not always selling expenses, but with the preparation of our activities towards a commercial organization, we will spend this year an increasing amount of money and certainly in the years ahead, for being able to commercialize in the U.S. So you will see a significant increase versus the 17 million general and administrative expenses that we had in 2017.

And on CapEx, I think the amounts that we normally need to run our activities here are not that big. So we talk about a few millions only. So that do not really play a role. The depreciation is significantly higher and therefore you also see that the cash flow implications – or you see the effect in the cash flow implications so that the burn, as you have seen, that I have given you as a guidance, is lower than the EBIT figure.

**James Gordon, J.P.Morgan**

I will stick with the MOR208 theme. The first one was just U.S. regulatory timelines. So we are going to have L-MIND data by around November this year. And yet, you are targeting an H1 2020 launch. But if you are going to have a rolling submission with breakthrough therapy status, it sounds like you could have approval actually quite a bit before - the end of 2019 might be a possibility. So why you are also preparing for that scenario, is the first question.

The second question would be, ex-U.S., just where are we on regulatory timelines? When is the earliest you can get an approval in the EU or any other country outside the U.S?

And then thirdly, was manufacturing. So you talked about building commercial capabilities but where are you on manufacturing the product at a commercial scale or getting someone else to do that for you? If you did get it approval in 18 months' time, would manufacturing be scaled up such that you are someone else could make it, is that all in hand? Thanks.

**Malte Peters, MorphoSys AG**

So let me start and maybe my colleagues will chime in. So let me start with the L-MIND breakthrough therapy and rolling submission. Please be aware that the clinical data is not the only data that formed the basis for the submission. We also have the CMC data to deliver and we are currently in very good discussions with our contract manufacturing organization to accelerate our CMC package. So overall, we foresee that in the second half of next year, maybe a point in time that will be relevant for potential submission.

With regard to ex-U.S. submission, we have initiated our interaction with the EMA] and this interaction is ongoing but it's a little bit less mature and less advanced than the interaction with FDA. Overall and generally speaking, we plan not to stagger our submission strategies too widely, so we are preparing ourselves to submit to the U.S. and to the European Medicine Agency around the same time.

**Simon Moroney, MorphoSys AG**

Regarding manufacturing, James, let me take that third part of your question. So we have been working for a long time now with a leading contract manufacturer and have established some time ago production at commercial scale. So we have a very stable, very robust process and commercial scale up and running with that commercial manufacturers, so we don't anticipate that as being a reglementary limiting step, but as Malte indicated, it's part of the entire package obviously, that we need to satisfy the FDA with.

**Anastasia Karpova, Kempen**

Quick on MOR208. I was wondering that previously you were contemplating BLA filing in the second half of this year and now, if I understand correctly, it has shifted toward the second half of the next year. Is the shift related to, let's say, non-clinical data or their specific requirements from the FDA or any specific feedback on the FDA on the amount of data you need? And maybe tied to that, in your discussions with the FDA, have you received any pushback on the trial size and the size of the safety database because it's on the lower end of the usual accelerated approvals? Thanks.

**Simon Moroney, MorphoSys AG**

Shall I start on that? We are sort of looking at ourselves a little bit puzzled here because we don't recall having said that we ever planned for BLA in the second half of this year. So we hope that wasn´t the case. I think the plan had always been for it to be in 2019. So as far as we can see, that's - of course- that the timelines are based on the recruitment for the trial, and as you know the last patient was recruited at the end of last year and needs to be followed up sufficiently long. And therefore by definition, we are not going to have the data until the end of this year. So we hope that there is no inconsistency there. Malte, you want to take the one on the FDA and safety database?

**Malte Peters, MorphoSys AG**

So of course we have shared our safety database with FDA in our interactions. They are fully aware of the number of patients that have been enrolled in our L-MIND study. They are also aware patients have been treated with MOR208 outside of L-MIND in other trials. And we have not received any pushback regarding the size of our safety database and it's also, I would say, if you anticipate the number of patients that would comprise the safety database, it's a fairly comfortable number of data points that we will have. So we have not received pushback and we feel fairly confident that our number of data points will be regarded as sufficient.

**Slide 28: Wrap-up / Take home messages**

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

Thank you, and to conclude the call, I would like to remind you of the main points to take away.

MOR208: We aim to use the momentum from the FDA's breakthrough therapy designation to focus on developing MOR208 plus lenalidomide in r/r DLBCL to approval as fast as possible.

MOR202: We're happy with progress on MOR202, both clinically and in terms of the work we're doing to secure the program's future. We will start to evaluate the clinical potential of MOR202 in NSCLC this year.

MOR106: We're excited about the potential of this compound based on the promising data we've seen so far and look forward to working with our partners from Galapagos on the start of a phase 2 study in the second quarter.

Guselkumab/Tremfya®: Based on Janssen's announced plans to develop Tremfya® more broadly in psoriasis as well as in psoriatic arthritis and Crohn's disease, we are optimistic that it could become a very large and successful drug.

We look forward to keeping you informed of progress.

**Alexandra Goller**: That concludes the call. If any of you would like to follow up, we are in the office for the remainder of the day. Thank you for your participation on the call and goodbye.