

**Crucell at Goldman Sachs Healthcare Conference
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GS Participant: And so, apologies for the slight delay, ladies and gentlemen. I just held up a little bit there. But we're very pleased to welcome Ronald Brus from Crucell, who's the Chief Executive Officer.

And as ever, with our sessions, this will be largely a Q&A, which I will moderate, but please feel free to raise your hands, and of course, there will be microphones circulating as well.

So Ron, maybe you could just give us an update on where the business is today, and what's going well.

Ronald Brus: Thank you for this great question. Well, the business today is geared -- as you might know, vaccines in general are in high demand. And there are not that many vaccine companies left, and outside the five big ones, we're the sixth largest, and I would say the largest independent vaccine producer in the world.

And it's actually quite funny, because just -- I would say seven, eight years ago, vaccines were not in high demand, and it has been seen as something that was of trivial importance to the world. But I think now, well, if people come to the conclusion that if you really want to do something about global healthcare, that probably vaccines are the biggest bang, and give you the biggest bang for the buck.

GS Participant: And I saw, your Q1 performance was fantastic.

Ronald Brus: Yes.

GS Participant: And yet, guidance seems a little bit conservative.

Ronald Brus: Yes, we -- you can see that the way we dress, we're always quite conservative in the Netherlands. So -- but I missed my guidance once, and it's not going to happen again.

GS Participant: Right.

Ronald Brus: Sometimes you see it, when companies develop out of this stage of biotechnology into a stage where they start to get serious revenues, that they keep on having this, let's say, biotech bluff on everything they do, and I think one of the most important lessons that we have learned over the last couple of years, that you should try to get rid of that kind of bluff as quickly as possible, and be as realistic as possible. And that's what we have done.

So, yes, first quarter, product sales were up more than 60%. Total revenues were up 54%, and despite that, it's just the first quarter, I need to say, I need to add, right? So we have an entire three big quarters to go. We're not very dependent on what's happening in the world with respect to the financial turmoil. People take vaccines very importantly.

This is an important project for the United Nations, to bring down child mortality for children under the age of five, and they started that, really, at the turn of the century, where they stipulated and set out some milestones. And milestone number four was to bring down child mortality in the [poorest of four] countries.

At this moment in time, we're supplying those countries with our pentavalent vaccines, and that has been an enormous success, not just, I would say, financially, but also on a more human carrier way. We do see that indeed child mortality has been reduced quite significantly, and that is encouraging, I think, the United Nations and UNICEF to go forward with these kinds of projects in a more rapid pace, which is good.

And typically what we saw, the demand of pentavalent vaccines in our area of the world was, last year, 80 million doses. We believe that demand will be, this year, so 2009 already, 140 million doses. And it would increase just in a matter of two, three years' time to over 220 million to 240 million doses.

So, yes, indeed, it just demonstrates that it is a very major contribution to global healthcare.

GS Participant: And do you see, when you're dealing with the U.N. or the World Health Organization, is there a difference in how you interact with them in all the profitability of the sales you make?

Ronald Brus: Well, despite, probably -- those are organizations where price plays an important role, but it's price of the entire project. And what a lot of people tend to forget is that apart from buying vaccines for 72 countries, they also have the obligation to distribute these vaccines throughout rural areas of Africa. And for them, it's more important that you deliver in time with the right quality than the cost, per se, is very much invalid also in the distribution and the failure of such a program. And that has a much higher expense to them than the cost of a dose of vaccine, per se.

GS Participant: And when you think about the kind of fairly rapid growth in demand, do you have sufficient capacity?

Ronald Brus: We -- originally, when we started this project, we made some calculations that the plant would be able to crank out 22 million doses on an annual basis. We produced this in Seoul, in Korea.

Well, we came to the conclusion that we had to a little bit change some of the lines within the plant, and now, at this moment in time, we do around 75 million, 80 million doses on an annual basis in that same plant. The investment that we put in this plant in Korea was less than [a million].

Now, the downside of being so successful in Korea is that you need to pay Korean taxes. So we came out with a kind of a deal with the Korean government, that we will start a new plant in Incheon, which is a -- near the airport, and they want to have foreign investments there. And we will get a tax holiday of seven years.

That new plant -- we built that plant now, the construction is there, so we're now putting all the equipment in. We do the first validation runs already at the end of the year, and that plant should be able to crank out at least 120 million doses of pentavalent vaccines. And in addition, we feel that plant could also do 200 million doses of Hepatitis B vaccines.

GS Participant: And at a very advantageous tax rate, as well. And --

Ronald Brus: Yes. Well, everything is advantageous if you compare that to Holland. But --

GS Participant: Or the UK.

Ronald Brus: Right, let alone the UK. No, but the tax rate, if you make profits, and good profits on one product, that has an impact on your entire bottom line, obviously.

Now, the tax holiday of seven years is, for us, very good. And it -- and on top of that, we're very pleased with the performance of the Korean FDA, but also our Korean workers. I mean, it's astonishing how much you can do in so little time, especially if you want to make and build new constructions with respect to pharmaceutical plants. They really work much harder than we do in Holland, I would guess.

GS Participant: And looking at the Travel and Endemic vaccine segment, I guess, looking at numbers of Q1, were not -- didn't look that spectacular. And will you be able to address that for the remainder for the hour, or --

Ronald Brus: Sure. Sure. Well, one of the things is that we clearly see, and I think it's not a secret that there's less people traveling throughout the world, right? Especially on holiday, and vacation destinations. But there is something interesting here.

We sell our products in basically 70 countries in the world, so we have approval in 7-0 countries. We have our own little sales force in about eight countries in the world. In the eight countries where we sell ourselves, we have the market share of around 18% to 20%. In the countries where we were basically forced to work with a distributor because our previous sets of Berna had chosen that distributor, and these contracts were not up for renewal yet, we have a market share of 1% to 2%.

So that wouldn't be that bad if those countries were typically countries in Africa like Zimbabwe or Angola, but it happened to be UK, France, Germany, Canada. So really, there is ample ways for us to really improve sales by geographical penetration and geographical spread, and changing of distributors, or start with our own sales forces in some of the other countries. And we will do so.

Now, despite, we see -- despite that 15% less travelers to the destinations that we're targeting, we can see that despite that, we still had the same number of those are sold. So that gives us good hope for the rest of the year that we will still improve sales also there.

GS Participant: And so, would it be fair that you will look to maybe increase your SG&A over the next 12 months, and what sort of payback would you expect?

Ronald Brus: I don't think it has a huge impact on SG&A, to tell you the truth. I mean, it's more related to the fact that why are certain distributors performing so much better, and what is real basis. And we're now, over the last three years, we're investigating and changing distributors, and you see, that has a huge impact without having any impact on our SG&A.

Once we start our own sales forces, you typically see that the initial investment is there, but that has a very quick payback. Obviously not in countries like the United States, but in relatively small, condensed areas, it has a very quick payback.

GS Participant: And so, hopefully -- I just, looking at the Inflexal, the flu vaccine --

Ronald Brus: Yes.

GS Participant: I mean, clearly, there's a worldwide focus on flu in general at the moment.

Ronald Brus: Yes.

GS Participant: How is that going to impact your business, and are you in a position to capitalize on it at the moment?

Ronald Brus: Well, I think the flu business is probably one of the toughest to predict. On the short-term, it is reasonable, you can predict that. And what we see, typically, is that there is an enormous awareness of influenza.

There's a tendency of people to forget that most of the people currently are affected by the so-called garden flu, the seasonal flu, right? About 35,000 in the United States are dying because of that flu, and there's about 40,000 people in Europe dying because of that.

Now, because of the elevation of the awareness on influenza in general, we see typically that we're sold out immediately on what we need to deliver on flu for the rest of the year. So you see that picking up.

But what I feel is far more important is that people realize that the victims of the seasonal flu are typically the elderly. Now, vaccination of just the elderly won't help that a lot, because there is a tendency that elderly people have a weaker immune response to flu antigens. And what you typically see is that the efficacy of a flu shot in the elderly is approximately 50%.

Now, there's very good data available of what they did in Japan. As of 1962, they started to vaccinate all school children, and that indeed had the biggest effect on mortality of the elderly. Because most of the grandparents can tell you that they got ill because of the grandchildren visiting them. And indeed, that is the case.

So we will see, I think, in the future, is that more and more kids are going to be vaccinated, and that requires, I think, somewhat more friendly vaccination products, and I think especially Inflexal is tailored to be given to kids. It's the only adjuvated vaccine in Europe that can be given to kids that are older than half a year old. So we do have an edge there.

Most importantly, though, I believe that the future of flu vaccination is probably more in the use of antibodies for influenza. I believe that bringing down the cost of goods of a gram of antibody is the most significant contribution that we can give to treating all kinds of infectious diseases that would benefit enormously by the use of antibodies.

As you might know, antibodies are designed in our human body to combat infectious diseases. They normally do not work against arthritis and other diseases that we try to teach them to work against. But they're designed to work against infectious diseases.

Just the cost of goods of a gram of antibody just ten years ago was about \$1,000 a gram. Now we can bring that down to \$100 a gram, but just in a matter of two years or three years, I think that cost of goods of an antibody will be between \$25 and \$50 a gram. And now for the first time, you can think about using antibodies as a preventive tool for influenza.

Why is that a big advantage? Because then you don't need to have a good immune system. And you can just give it to the elderly, and it will be very efficacious for them, in order not to get the flu.

And now, the other good thing for antibodies is that you can also use them as therapeutic agents. And I think there, a vaccine is always too late, right? You see that now. We've been with meetings with Margaret Chan, and Secretary General [Moon], and talk about what can we do as an industry for influenza and swine flu?

Well, the truth of the matter is, there are no vaccines yet, and we, nor Sanofi, nor Glaxo Smith Kline, does exactly -- we do not know to what virus we should aim at. That is the big problem now. Because if this swine flu goes to China, and it will travel to China, it's already in China, and reassort with the H5N1 that's still present there, there is no vaccine that we can think of today that we already can design that can attack that problem.

An antibody, and ones that we have published in Science just eight weeks ago could potentially, and by design -- it doesn't matter what the reassortment is going to be, because the stem of the HA2 will always remain the same. And it's not subject to all kinds of conformational changes. And therefore, we believe at the long run, infectious diseases, you should combat, if it's possible, with antibodies that you can make in a very -- on a very reasonable scale, for a good, reasonable cost of goods.

GS Participant:

And the pace of developments or the speed of manufacture -- is that -- presumably, that's an issue as well, because typically the lead time for production is --

Ronald Brus: Of flu shots?

GS Participant: Yes.

Ronald Brus: Yes, that is -- sure. If we want to have flu shots next year, we would start to produce now. Now, typically, what we told the United Nations and the WHO is, let's first work on the seasonal flu shots, because we know now that that kills at least 100,000 people worldwide every year. And so far, the swine flu did not kill over 300 people.

So, first, do the seasonal stuff, and then in June, July, we will start working on the swine flu if we have something that we feel can work.

But it still is debatable who's going to pay for that. Obviously, there's money available, but if we don't know exactly what kind of flu shots to make, it's always a tricky shot, right?

GS Participant: And elsewhere within your R&D portfolio -- apologies, are there any questions? Within your R&D portfolio, I guess there's a TB vaccine?

Ronald Brus: Yes. What we see, and that's basically something -- I'm working now in this industry for 20 years, but what we've seen over the last, I would say, three decades, that there was a tendency of the pharmaceutical industry to focus on specific diseases of the West, with the firm belief that there would be reimbursement and economic benefit coming out of that kind of development.

We feel that there is a bit of change there, because we now see that tuberculosis worldwide is on the rise, and for the first time also, the number of, let's say, notable resistant tuberculosis strains is on the rise.

And contrast to popular belief, those strains, they don't stay in Africa or on those parts of the world. They just come to the Western world as well.

And I think if you really want to have a reimbursable policy for your drug development, you should focus on these kind of diseases, because last year, more than 1 million people were killed by tuberculosis alone. And to make a novel tuberculosis vaccine is not impossible. You should just dedicate money and the right people to it.

And we have now done about six trials worldwide, and we have seen and observed the highest immune responses to tuberculosis so far. So that triggered us to start already studies in babies in South Africa, because especially in South Africa, it's being really hammered by tuberculosis, so to speak.

GS Participant: And just moving briefly away from the product side, just looking at your -- the corporate side, say, the organization. You've had this Healthy Ambition cost savings program ongoing.

Ronald Brus: Yes.

GS Participant: And could you update us on whether you think you can extend that further?

Ronald Brus: Yes. Now, it's -- well, basically Crucell is a company that evolved out of the acquisition of three relatively old vaccine companies in Europe. And these companies were all 100 years old. And when we took them over, I wouldn't say they were characterized by excellent management for the last years. That means that we had supply issues, we had a lot of scrap, we didn't know exactly what the profitability per product formulation was -- you know, the normal things that -- what you would expect in a rather old-fashioned pharmaceutical industry.

Now, what we did is, we said, okay, immediately looking at the business, we could say we could save EUR30 million off the cost structure. And that EUR30 million is excluded from what we spend on R&D, because there, we can also save some money if we want.

So the EUR30 million is more on the supply chain. We had about 5,000, 5,500 suppliers to the Company. Well, you could never do good deals with those suppliers if you have to -- that many, right? So we could bring that down.

We sold a lot of stuff to South America that really, when we started to calculate it, it cost us a lot of money to ship it there. So really, we make clear to the folks in Switzerland that every time we ship a container to Peru, we also could put a gold bar in it and give it to the people there, because we only lose money there. And now, they start to get that consciousness of what we're really doing, and we can see that line by line.

Now, another very important thing, as you might know, in our vaccine industry, we have pretty long lead times, right? That means that scrap, and the amount of failures at the end, are extremely costly.

Well, most of our vaccine peers are extremely happy when they just have \$25 million of scrap at the end of the year. Well, a company from our size can basically not tolerate that, so scrap should be limited to less than 1% to 2%. And those are all things that we are quite keen to develop further on.

So we believe that at the end of this year, indeed, the target that we set, EUR30 million cost savings, will be there, and we will go on, because you know, the Company can be streamlined more and more.

Now, another very important thing is, if you had idle capacity like we had in the beginning, it's important to fill that capacity, and that has a major contribution also to the margins and to the cost savings you make, because it makes a -- a lot of the difference is, if you make 9 million doses in the same facility, or 70 million or 80 million doses in that same facility, you can understand that your cost structure is much better. So we've continued to focus on that.

But I'm just a general practitioner, so I used to see patients. So this is someone else within our organization that's doing that, it's not me.

GS Participant: But you're going to expect more from the (multiple speakers) --

Ronald Brus: Yes, yes, yes. We do. We do. We didn't give targets, but we do.

GS Participant: Yes, okay. The -- I -- and you haven't seen -- you said earlier on, you haven't seen much impact from any -- kind of recession impacts on your business --

Ronald Brus: No.

GS Participant: -- obviously a little bit in terms of travelers.

Ronald Brus: Travelers, yes.

GS Participant: But not elsewhere?

Ronald Brus: No.

GS Participant: And healthcare reforms, it's a big topic at our conference, generally.

Ronald Brus: Yes.

GS Participant: How are you feeling about potential reforms in the US?

Ronald Brus: You know, I understand that I don't make myself extremely popular by saying that, but I think those healthcare reforms are healthy. I think that if you look at the pharmaceutical industry in the last three decades, we spent a lot in research and development money, but maybe we didn't develop and we didn't come to a lot of new grade drugs.

I mean, yes, we have some drugs for cancer now, we have some drugs for depression, but some of the drugs are all alike. And the contribution, with respect to what society needs to pay for them, if you then compare that with the efficacy that those drugs have, maybe it's a little bit out of whack. Maybe it's a little bit -- it's not in balance, I believe.

You know, we basically can say that with vaccines, you can save a kid's life for just \$4.00 or \$5.00, right? And you can make sure that that kid will not get five potentially lethal diseases for the rest of its life. That is an economic benefit that I think a lot of people are looking for.

The same goes actually also for flu shots and other stuff. The economical benefit is really great. And I think that the fact that it's now a little bit more difficult for some industries to get the real profits that they were looking for also forces them to be more economically in the way they do research and development.

And I think, in all fairness, this industry needed that a bit. We all hate to see this pharmaceutical industry go in the direction of what happened in Detroit, but we need to redefine what a medicine is, and what the reimbursement of a medicine is fair. And I think we're now in that process.

GS Participant: And clearly, at the moment, vaccines are very much in vogue, and it is a golden time.

Ronald Brus: Yes.

GS Participant: Do you -- I mean, these things do tend to go in waves, don't they?

Ronald Brus: Yes, but on the other hand, five years ago or ten years ago, I was telling audiences that we were going in vaccines and doing there and there, and there were only a few people listening because no one was really interested in vaccines. But vaccines really contributed a lot to healthcare also here in the United States and in Europe. Because of vaccines, we don't have polio, we don't have tetanus, we don't have diphtheria, we don't have all the diseases that we just feared and our mothers and fathers and feared 40 years ago.

We tend to forget that, because in my lifetime, I did not see polio. You probably didn't see polio. You just heard about the stories.

Well, we can now do so much more, and all the biotech innovations, if you apply them to vaccines, you can really do a lot. Tuberculosis, malaria -- on the long run, using antibodies for flu, using antibodies for Hepatitis C or for (inaudible) -- you know, it's all doable and possible. But we need to start to innovate.

We need to start to innovate like our parents did in the 1950s making penicillin cheaper and cheaper, and making them available for everyone. Right? Because in the 1940s, the biggest threat to us was pneumonia from a bacterial infection. You never heard about that anymore, because penicillin also widely used.

And I think, let's hope that the same will happen for (inaudible) antibodies. And the only way to do so is drive down the price of the goods, because that's such an important step. And that's what the penicillin companies did very well in the 1940s and '50s.

GS Participant: And -- oh, sorry.

Audience Member: Sorry, yes. Just probably a quick question regarding the pricing, but because you introduced that clearly. So in a case that (inaudible) five years higher, so you're going to go, pricing from the vaccine going lower and lower.

How would you position yourself physically? You get the innovation right, but now we are in a concept effectively with the [end scale] reform, where probably the pricing, and we're not talking a lot about the pricing, but the pricing -- price (inaudible) are going to be really important in the next (inaudible).

So aren't you afraid about being a real commodity business? And then, what's going to be the solution for you? Are you only a [scale up] business, or how do you see the picture?

Ronald Brus: I think it is a very good question, but I think reality teaches something else. If we compare the price of vaccines with the price of vaccines about 20 years ago, we see that the prices -- the vaccines that they use, for example, in the Western world, is higher than it was 20 years ago. So you don't see a lot of price erosion, contrast to popular belief.

What we do see is that there is vaccines that are being sold in certain areas of the world that can be made so much more efficient. But the profit margins are still healthy enough to do good business with.

And I think one of the most important things is, is that when you first see what kind of contribution you give to global health, and second, if you give a big contribution, the price tag that you can attach to that will be there, and people are willing to pay for something.

And a good example is flu. Just a matter of years ago, the flu shots in the United States cost around \$2.00, \$3.00. In times where people are aware of the treat of flu, you see the price of these vaccines going up to about \$30.

But I want just more innovation in things like tuberculosis, in things like malaria. Because the prices that you're referring to are actually prices of vaccines that have been developed about 30, 40, 50 years ago, and are still manufactured in the same way. And I think that even when you look at branded medicines, you see that there's generic competition coming up, and that's driving down the price, even more significantly than for vaccine.

GS Participant: And at a corporate level, do you think you've got sufficient scale? Do you feel any need for any kind of acquisitions, or would they largely be maybe small distributors here and there, or --

Ronald Brus: Yes. Well, with respect to the technologies that we possess, we think that we can play an important role in the future and to fill our pipeline ourselves or the pipeline of some other pharmaceutical company with the technologies that we currently possess. So we're not interested in technology plays or technology companies, per se.

However, we're interested to -- always interested to see if we can grow the business, and can become a more important player in this business. But we're not typically a kind of a bottom-fisher that, you know, now we have a lot of money and we are profitable, let's see what kind of companies are really in problems.

We think in order to make a good acquisition, you really should study what you want to achieve. It should fit in your strategy. And once it fits into your strategy, the price is something that's not the most important factor.

I remember when we bought Berna for EUR350 million. A lot of people said it was very high priced, when in hindsight, it was very cheap. But it was just a matter of, it was the right time to acquire it.

GS Participant: Okay, I think we're about out of time, so thank you very much.

Ronald Brus: Thank you so much. Thank you.

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